



County of San Diego, California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2004



Board of Supervisors

First District	Greg Cox
Second District	Dianne Jacob
Third District	Pam Slater-Price
Fourth District	Ron Roberts
Fifth District	Bill Horn

Walter F. Ekard
Chief Administrative Officer

Donald F. Steuer
Chief Financial Officer

Tracy M. Sandoval
Auditor and Controller

"Supporting Kids, the Environment, and Safe & Livable Communities"



County of San Diego California

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First District

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Fifth District

Chief Administrative Officer
Walter F. Ekard

Compiled under the direction of
Chief Financial Officer
Donald F. Steuer

Auditor and Controller
Tracy M. Sandoval

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INTRODUCTORY SECTION



County of San Diego

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ASST. CHIEF FINANCIAL OFFICER/
AUDITOR & CONTROLLER
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December 23, 2004

Honorable Members of the Board of Supervisors
County of San Diego
San Diego County Administration Center
San Diego, California, 92101

Ladies and Gentlemen:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the County of San Diego, California (the County) for the fiscal year ended June 30, 2004 with the Independent Auditor's Report, submitted in compliance with California Government Code Section 25253. The Auditor and Controller's department has prepared the CAFR in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the County. We believe that the data, as presented, is accurate in all material respects; that its presentation fairly shows the financial position and the changes in financial position as measured by the financial activity of its various funds; and that the included disclosures will provide the reader with an understanding of the County's financial affairs.

The CAFR was prepared to satisfy the financial reporting requirements for state and local governments issued by the Governmental Accounting Standards Board (GASB), which require that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of a Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

The CAFR has been audited by the independent certified public accounting firm of Macias Gini & Company LLP. The goal of the independent audit was to provide reasonable assurance about whether the basic financial statements of the County of San Diego for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall basic financial statement presentation. The independent certified public accounting firm concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County of San Diego's financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information, which collectively comprise the basic financial statements, as of and for the fiscal year ended June 30, 2004, present fairly, in all material respects, the financial position, changes in financial position and cash flows where applicable, thereof of the County of San Diego in conformity with accounting principles generally accepted in the United States of America.

The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Information related to this single audit, including the Schedule of Expenditures of Federal Awards, Findings and Questioned Costs, and the independent auditor's reports on internal control and compliance with applicable laws and regulations, are included in a separate annual publication.

Copies of this CAFR, and the Single Audit Report may be accessed on the Auditor and Controller's website at <http://www.sdcounty.ca.gov/auditor/>.

The CAFR is divided into the following sections:

The Introductory Section includes information about County government, the County's economy, general management system, strategic initiatives, selected other financial information, and acknowledgements.

The Financial Section includes the MD&A, the Basic Financial Statements including notes, and the Required Supplementary Information. The Basic Financial Statements include the government-wide financial statements that present an overview of the County's entire financial operations and the fund financial statements that present the financial information of each of the County's major funds, as well as non-major governmental, fiduciary, and other funds. Also included in this section is the Independent Auditor's Report.

The Statistical Section provides trend data and non-financial information useful in assessing the County's financial condition. In this regard, it contains various tables, which present ten years of historical information concerning financial data, debt statistics, and miscellaneous social and economic data. This information is often of special interest to potential investors, creditors and other interested readers.

SAN DIEGO COUNTY PROFILE

San Diego County is the southernmost major metropolitan area in the State of California and covers 4,255 square miles, extending 70 miles along the Pacific Coast from Mexico to Orange County, and inland 75 miles to Imperial County along the international border shared with Mexico. Riverside and Orange counties form the northern boundary. The County enjoys a wide variety of climate and terrain, from coastal plains and fertile inland valleys to mountain ranges and the Anza-Borrego Desert in the east. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most resources and population are located. The average annual rainfall in the coastal areas is 10 inches, so that the County is highly dependent on imported water.

The County population in January 2004 was estimated to be 3,017,200, an increase of 1.4% over January 2003, making it the third largest county by population in California. Between 1970 and 1995, the San Diego region's population growth outpaced both the state and the nation, according to the San Diego Association of Governments (SANDAG), who projects that trend to continue through 2020. There are 18 incorporated cities in the County; of them, the City of San Diego is the largest, with population of approximately 1.294 million. In addition, Tijuana, Mexico, with an estimated population of 1.2 million, is a substantial urban neighbor with a shared border, workforce, and economy.

The racial and ethnic composition of the County is as diverse as its geography. According to SANDAG's analysis of the 2000 Census, 55% of the population is White; 27%, Hispanic; 9%, Asian; 5%, Black; and 4%, all other groups. The growth in the Hispanic population over the last 10 years, 47%, has significantly exceeded total County population growth of 13%. SANDAG projects that both the Hispanic and Asian population shares will continue to increase through 2020. SANDAG also projects an older San Diego County by 2020, based on statistics such as median age.

COUNTY GOVERNMENT, ECONOMY AND OUTLOOK

San Diego County Government

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. A five-member Board of Supervisors elected to four-year terms in district nonpartisan elections governs the County. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer and the Auditor and Controller. Elected officials include the Assessor/Recorder/ County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

Many of the County's functions are required under County ordinances or by state or federal mandate, as County government is the delivery system for federal, state and local programs. The County supports a wide range of services to its residents including regional services such as courts and elections, public health and welfare, and environmental services. The County also provides the unincorporated areas public safety, basic community services such as planning and parks, and infrastructure such as roads and waste disposal. State and federally mandated programs, primarily in the social and health services areas, are directed to be

maintained at certain minimum levels, with eligible costs subject to reimbursement according to specific guidelines; however, not all mandated costs are reimbursed.

San Diego Economy

In recent years the County has enjoyed economic stability, outpacing the state economy despite a downturn in California between 2001 and 2003. For example, the unemployment rate for the County has been lower than that of the State for the last 5 years, and at July 2004 was 4.4% as compared to 6.2% for the State. Much of this economic strength was characterized by employment gains, rising levels of commercial and industrial development and steady population growth. Looking forward, the state and federal economies are expected to grow slowly, with increases in business investment and slow growth in consumer spending. The San Diego economy is expected to perform in line with the slow expansion of the state and federal economies and to maintain its favorable position in relation to such comparative statistics as unemployment and job growth.

The County's economic base consists of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence. Highlights of County employment as of July 2004 are listed below.

- Non-agricultural employment totaled 1,257,000 jobs.
- The services industry constitutes the largest employment sector and accounted for approximately 44.4% of non-agricultural employment as of July 2004, with a total of 557,900 employed.
- The wholesale and retail trade industries were the second largest, non-government sector, comprising approximately 14.6% of non-agricultural employment with a total of 183,000 jobs.
- Government accounted for approximately 16.7% of total employment and manufacturing accounted for an additional 8.4%. While the U.S. Department of Defense contributed about \$13.6 billion to the local economy in 2002, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses, preliminary estimates put the number above \$14.0 billion for 2003. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities. Agriculture accounted for approximately .88% of total employment.
- The construction and transportation sectors of employment are greatly influenced by the general health of the economy due to the fact that they serve the local market exclusively. The construction industry in particular has a significant multiplier effect on the economy as a whole. These two sectors are therefore directly influenced by the growth of population and housing. Construction also benefited in 2003 from the ongoing low interest rates.
- Employment growth over the next year is expected to come from the software and computer services and business services industries. Overall, the San Diego economy in 2004 is expected to add approximately 30,100 jobs, up slightly from 2003.

County revenues such as property taxes, sales taxes, and charges for services that are dependent on the local economy have benefited from the region's strength. For example, new real estate construction plus active resale markets over the last 5 years have resulted in an increase of 56% in the assessed value of property subject to property taxes (net of exemptions). Going forward, real estate markets are expected to remain strong but not spectacular. In addition to conditions of supply and demand, real estate market activity is also affected by interest rates. Mortgage rates increased in 2004, but are expected to remain low by historical standards over the near term.

The difficult side of accelerating property values is that housing has become less affordable for San Diegans; the update of the County General Plan 2020 is in the process of providing land use and zoning regulations to accommodate expected population growth in the unincorporated areas of the County. Transportation demands and traffic congestion will affect the current and future quality of life, given suburban residential growth and business expansion, such as the gaming industry, outside city centers on formerly rural and agricultural land.

GENERAL MANAGEMENT SYSTEM

The General Management System (GMS) is the formal comprehensive guide for planning, implementing, monitoring and rewarding all functions and processes of County Government. The GMS establishes good business practices and fiscal discipline, both of which are essential to achieve the County of San Diego's vision, "A County Government that has earned the respect and support of its residents." The purpose of the GMS is to optimize the efficient application of resources in the delivery of services to our residents. These resources include not just taxpayer dollars, but all San Diego County assets, including our unique natural and

cultural resources, the expertise and creativity of County employees, and the informed interest of County residents. The idea behind the GMS is straightforward: County government will be able to provide superior services if it sets sound goals and applies strong management principles to achieve those goals.

The County has an annual budget of more than \$4 billion and almost seventeen thousand employees who serve nearly three million residents spread over more than 4,000 square miles. Coordination, fiscal and operational discipline, and shared commitment are vital. The GMS facilitates and organizes the goal setting process. The GMS then links goal setting and long-range planning and resource allocation to goal attainment, which includes monitoring, evaluation, cooperation, motivation, and recognition. The GMS helps ensure that County employees adhere to core principles, promoting a culture that values our employees, partners, and customers and institutionalizes continuous improvement and innovation.

The GMS process begins with long-range, five-year strategic planning process. This is followed by the short-term, two-year operational planning process, which encompasses the budget process and wherein each department's strategic objectives and resources allocated to achieving them are detailed. Monitoring and control take place throughout the year. Evaluation mechanisms are used to ensure that goals are tracked, plans followed, and risks identified. Functional threading maximizes efficient use of personnel and material resources by coordinating staff and linking the functions they perform. Motivation, rewards, and recognition encourage continuing progress by rewarding those who meet and exceed goals. The system completes a full circle in a fiscal year and begins again with a review of the Strategic Plan and development of a new Operational Plan.

County management defines and communicates GMS objectives. Lines of authority flow from the Board of Supervisors to the Chief Administrative Officer (CAO), Assistant CAO (ACAO), and the five Group General Managers/Deputy CAOs. These senior managers supervise appointed department heads, from whom authority flows down to line staff. Despite the crucial role of management, the success of the GMS depends on strong and effective leadership at all levels of County service. Every County employee is expected to help set goals, strive to achieve them, and be rewarded for achievement.

The GMS helps ensure that sound planning, preparedness, and improvement become permanent organizational ethics. With the GMS as a guide, the County continues to use strong fiscal management practices, while remaining focused on providing superior services to County residents. The principles and procedures outlined by the GMS are meant to apply to every County function on an ongoing basis.

STRATEGIC INITIATIVES AND ACHIEVEMENTS

In Fiscal Year 2003-04 three significant external events overlaid the allocation and availability of County financial, human, and physical resources in support of strategic efforts.

- In late October 2003, four simultaneous wildfires, known collectively as "Firestorm 2003", burned almost 400,000 acres in San Diego County, causing loss of life and extensive damage to both public and private property. The estimated structural damage loss in the unincorporated area only is \$862 million. County government initiated short-term and long-term responses including emergency communications and public safety responses, spearheading the efforts at regional fire protection and communications systems upgrades, coordinating Federal Emergency Management Agency funding and other grants, and rebuilding County property. In some cases, federal and State funding sources are expected to reimburse County funding for cleanup, support, and prevention of future catastrophic disasters. In others, however, County resources were and will be expended in order to restore balance and safety to the physical environments of San Diego County.
- Second, the failure of State government to develop a viable long-term solution to its budget imbalance remains a risk to funding and stability of County programs, since State aid is the primary source of County revenues. Although, according to the California Legislative Analyst's Office ("LAO") the California economy has improved, the budget still relies on one-time spending such as debt issuance and has a structural operating shortfall. Risk and uncertainty surrounding State support to local governments for mandated as well as discretionary programs persisted throughout Fiscal Year 2003-04 and is expected to remain.
- Finally, the September 11, 2001, terrorist attacks and ensuing domestic and international Wars on Terrorism continue to color all public safety efforts of local government. San Diego County, with a concentration of direct and indirect military spending, is impacted at several levels of government and the economy.

In spite of the events in the external environment, County government continues to follow the map of the five-year long-term Strategic Plan developed within the discipline of the GMS. The County's Strategic Plan defines broad organization-wide goals as Strategic Initiatives, which help prioritize specific 'front-line' County efforts and programs. The Strategic Initiatives are:

KIDS

Improve opportunities for children

THE ENVIRONMENT

Promote natural resource management strategies that ensure environmental preservation, quality of life, and economic development.

SAFE AND LIVABLE COMMUNITIES

Promote safe and livable communities

The Strategic Plan also recognizes that maintaining operational excellence is what enables us to accomplish our Strategic Initiative goals. Key Required Disciplines of operations include:

- Fiscal Stability
- Customer Satisfaction
- Regional Leadership
- Skilled, Competent Workforce
- Essential Infrastructure
- Information Management
- Accountability/Transparency
- Continuous Improvement

Within the structure of the two-year operational planning process, the County plans for and attains interim progress toward achievement of the Strategic Initiatives. Some of the significant steps of the last year were:

KIDS

- Fully immunized 88% of children served by public health centers, exceeding both State (76%) and national (73%) rates
- Exceeded Federal performance measure standards for child support services
- Increased access to Megan's Law database
- Opened a new teen center in Lakeside and new playgrounds and ball fields in County Parks
- Recruited student poll workers and provided polling booths and mock voting materials to schools
- Enhanced emergency preparedness via the Terrorism Public Education Campaign
- Reached out to communities in diverse County programs and services for families, such as prevention of domestic violence and animal cruelty, food safety and nutrition, and West Nile Virus education
- Collaborated with other agencies in a Countywide Literacy Initiative and other joint programming to promote reading

THE ENVIRONMENT

- Maintained compliance with the Federal one-hour ozone standard
- Continued cleaning programs for culverts, drainage channels, and roads to keep debris out of rivers, bays, and the ocean
- Protected groundwater resources by monitoring underground storage tanks and enforcing actions against violations
- Acquired 1,546 acres of open space in the Multiple Species Conservation Program and other open space areas
- Completed the installation of energy-saving devices and demand-management projects in County facilities
- Trained County employees in Stormwater Pollution Prevention for the workplace

SAFE AND LIVABLE COMMUNITIES

- Responded to the catastrophic events of Firestorm 2003
 - Provided Emergency Medical Services and activated Emergency Operations Center for county-wide efforts and coordination with State agencies
 - Implemented a number of aids to fire victims, including health services, crisis counseling, child care, information hotlines, one-stop assistance centers, anti-fraud efforts, and assessment of agricultural loss
 - Marshaled County employees for Safety and Damage Assessment Teams
 - Initiated post-fire erosion control and debris removal programs
 - Mended and replaced damaged and destroyed County property, such as roads and parks facilities
- Completed \$21 million in capital improvement projects for parks facilities, part of a five-year capital improvement plan
- Completed facilities and other upgrades in support of the new Voting System
- Prosecuted consumer fraud lawsuits with other agencies concerning price scanner overcharging and inaccurate product packaging
- Conducted a major campaign in all County facilities for improvements in workplace safety and injuries
- Enhanced communities through a variety of library services: a new library in Spring Valley, renovations in Del Mar, Imperial Beach, and El Cajon branches to comply with the Americans with Disabilities Act, and expanded access to and filters on all Library computers with public Internet availability

OTHER FINANCIAL INFORMATION

Internal Controls

In developing and evaluating the County's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe that the County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Strategic and Operational Planning (Budgetary) Process

As noted above, a five-year Strategic Plan is updated annually to provide long-term direction to County managers and staff. It embodies the tenets of County's General Management System (GMS) and is built on mutually held expectations for the future. Each fiscal year a two-year Operational Plan is prepared and details each department's strategic objectives and the resources required to achieve them. The Operational Plan is monitored regularly and is linked to the GMS system of rewards and recognition. The annual Line-Item Budget incorporates the first year of the Operational Plan and is formally adopted by the Board of Supervisors pursuant to Government Code 29000. During the year departments may request budget adjustments for new and existing programs. In addition, the Chief Administrative Officer reviews the status of the County's performance against budget in a quarterly status report to the Board of Supervisors.

Pension Trust Fund

The San Diego Employees' Retirement Association (SDCERA) is a contributory defined benefit plan established July 1, 1939, under provisions of the County Employees Retirement Law of 1937. The plan is integrated with the Social Security System and substantially all employees participate. As a result of the adoption of enhanced retirement benefits in March 2002, the County incurred an increased obligation pursuant to the Retirement Law as an unfunded accrued actuarial liability (UAAL) to the Association. In June 2004, the County issued \$454.1 million in Pension Obligation Bonds (POBs), the proceeds of which were primarily used to fund the aforementioned UAAL. As of June 30, 2004, the total estimated UAAL was \$1,202.7 million. For further details concerning this transaction, please refer to Note 5(I) to the Financial Statements. The retirement plan's funding status (the ratio of system assets to system liabilities) at June 30, 2004 was 81.1%.

Cash Management

The Treasurer, at the delegation of the Board of Supervisors, directs the investment of available County cash, along with cash from other local agencies such as school districts. All deposits are commingled in a pooled investment fund (Pool) and are invested according to an investment policy whose objectives are safety of

principal, liquidity, and a rate of return consistent with prudent management. At June 30, 2004, the average yield on investments was 1.59%.

Risk Management

The County purchases insurance for property damage (including earthquake), certain casualty claims, public-officials bond, employee dishonesty, faithful performance, and other risks, and pays deductible amounts that vary with each type of insurance.

The County is self-insured for all other risks. The self-insurance activities and resources are accounted for in the Risk Management Internal Service Fund (ISF) with the exception of insurance purchased by the County in excess of \$1 million for workers compensation that is recorded in the County's General Fund. The ISF accounts for all uninsured employee risk management activities and for all uninsured public risk management activities, such as premises liability, medical malpractice, false arrest, and general liability. Risk liability levels are determined by actuarial studies, and reserves are being funded over a multi-year period from the rate structures charged to the operating funds. This ISF is also discussed in Note 5B to the Financial Statements.

INDEPENDENT AUDIT

County Charter Section 802 requires an annual audit of the County's accounts and financial transactions. As previously discussed, the certified public accounting firm, Macias Gini & Company LLP, has audited the accompanying basic financial statements compiled from these records. Their Independent Auditor's Report on the financial statements is presented in the Financial Section.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

OTHER AWARDS AND RECOGNITIONS

Even with the financial and environmental challenges of Fiscal Year 2003-04, the County was recognized for many activities that highlight progress in the Strategic Plan Initiatives. County programs received awards for operational and service delivery achievements, technological innovations, and prudent fiscal management.

- In early 2004, 29 County of San Diego programs were selected for Achievement Awards by the National Association of Counties (NACo). The NACo awards extend to efforts in all three of the strategic initiatives. Of the 106 U.S. counties receiving recognition, San Diego County received the second highest number of awards given to any county for such accomplishments as the Emancipated Foster Youth Transitional Housing Program, "Fight the Bite" response plan to the West Nile Virus, and a variety of Firestorm 2003 responses to both the human and the environmental elements of that disaster.
- The County of San Diego was one of only ten California Counties to receive a Challenge Award from the California State Association of Counties (CSAC) in 2004 for the Risk Mitigation and Litigation Program.
- The County of San Diego ranked #1 on a list of the nation's most digital-savvy counties, according to the 2004 Digital Counties Survey, which examined how county governments use information technology to deliver services to citizens. The nationwide survey was conducted jointly by the Center for Digital Government, NACo, and Government Technology magazine.
- County Television Network (CTN), the local government access channel for the County of San Diego, was awarded four Emmy awards by the National Association of Television Arts and Sciences/Pacific Southwest Chapter, for programming excellence and was received first place for Overall Excellence in 2004 by the Southern California and Nevada/National Association of Telecommunications Officers Association.
- The GFOA also awarded its Distinguished Budget Presentation Award to the County for Fiscal Year 2003-04 Operational Plan.
- The San Diego County Taxpayers' Association (SDCTA) awarded their 2004 Regional Golden Watchdog Award to the San Diego County District Attorney for the DA's Elder Abuse Program, with

the County's Public Purchasing: Changing Times, Changing Ways program named a finalist in the same category

ACKNOWLEDGMENTS

We would like to express our appreciation to the accounting staffs of County departments and the staff of the Auditor and Controller's department whose coordination, dedication and professionalism are responsible for the preparation of this report. We would also like to thank Macias Gini & Company LLP for their professional support in the preparation of the CAFR. Lastly, we thank the members of the Board of Supervisors, the Chief Administrative Officer, Group/Agency General Managers and their staffs for using sound business practices while conducting the financial operations of the County.

Respectfully,



DONALD F. STEUER
Chief Financial Officer



TRACY M. SANDOVAL
Auditor and Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of San Diego,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



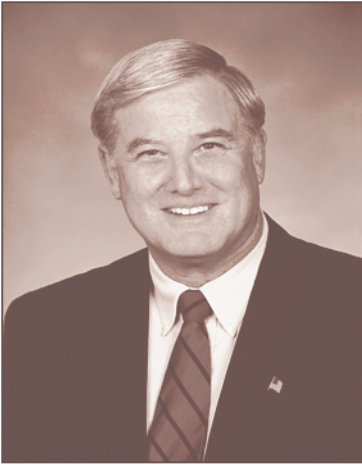
Nancy L. Ziehl

President

Jeffrey R. Enen

Executive Director

BOARD OF SUPERVISORS



DISTRICT 1

Greg Cox



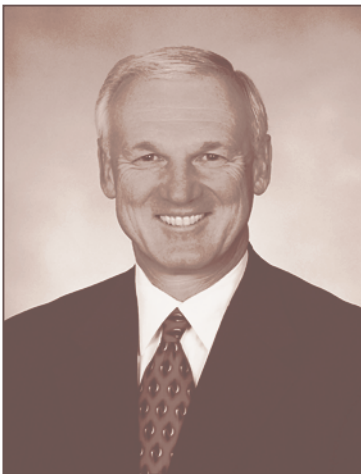
DISTRICT 2

Dianne Jacob
(Chairwoman)



DISTRICT 3

Pam Slater-Price
(Vice-Chairwoman)



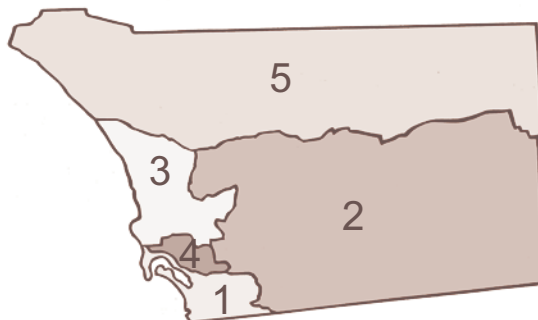
DISTRICT 4

Ron Roberts

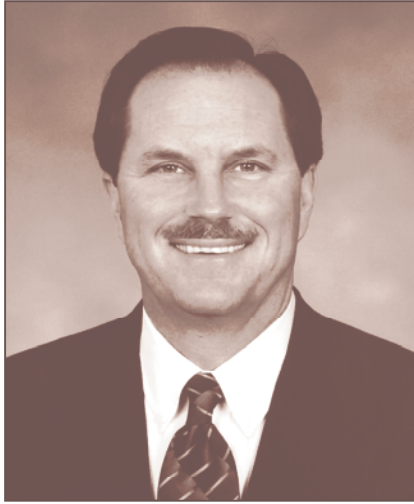


DISTRICT 5

Bill Horn



FISCAL OFFICERS



**CHIEF ADMINISTRATIVE
OFFICER**
Walter F. Ekard



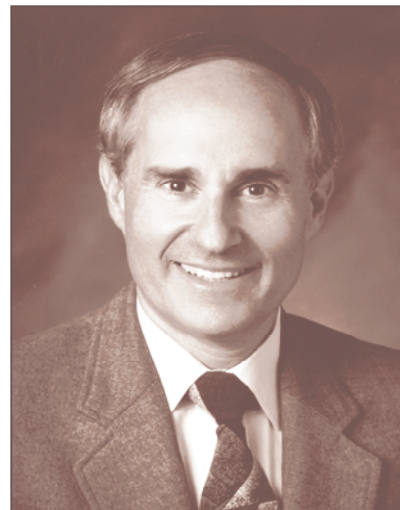
CHIEF FINANCIAL OFFICER
Donald F. Steuer



AUDITOR AND CONTROLLER
Tracy M. Sandoval



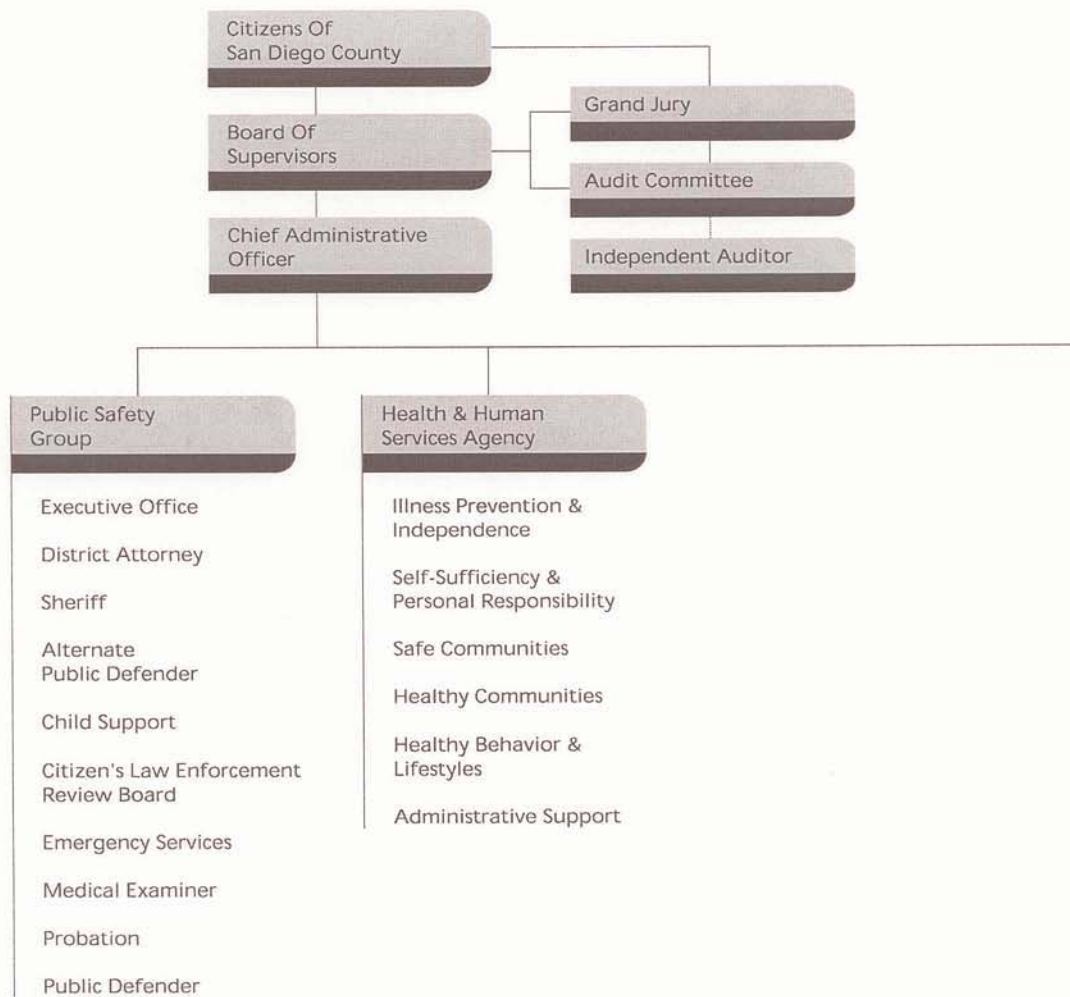
TREASURER/TAX COLLECTOR
Daniel V. McAllister



**ASSESOR/RECORDER/
COUNTY CLERK**
Gregory J. Smith



San Diego County Organizational Chart









FINANCIAL SECTION

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Notes to Basic Financial Statements
- Required Supplementary Information
- Combining Financial Statements/Schedules and Supplemental Information



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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of San Diego, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of San Diego, California (County), as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of County management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the First 5 Commission of San Diego (Commission), the discretely presented component unit, and the San Diego County Employees Retirement Association (SDCERA), which represents 60%, 65%, and 8% of the assets, net assets/fund balances and revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Commission and SDCERA, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of SDCERA were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2004, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 21 through 35, 92 through 97, and 99, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maclean Fini & Company LLP

Certified Public Accountants

Los Angeles, California
December 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) Required Supplementary Information

This section of the County of San Diego's (County) Comprehensive Annual Financial Report provides a narrative overview and analysis of the basic financial activities of the County as of and for the year ended June 30, 2004. The intent of the information presented here, in conjunction with the Letter of Transmittal is to provide the reader with a clearer picture of the County's overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

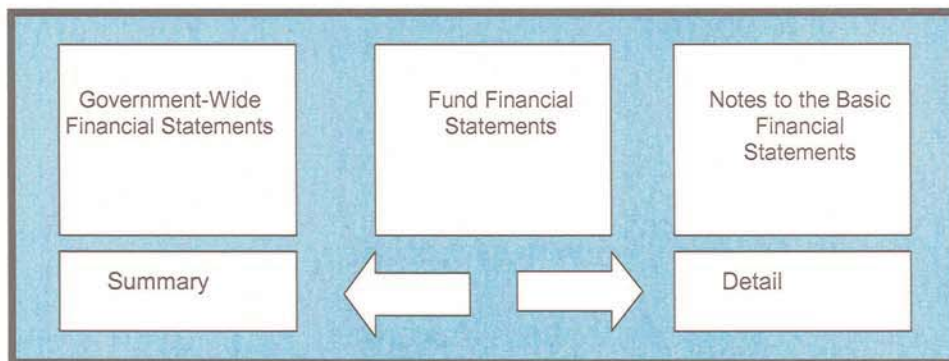
FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at the close of the fiscal year 2003-2004 by \$1.98 billion (*net assets*). Of this amount, \$170 million is restricted for specific purposes (*restricted net assets*), and \$2.4 billion is invested in capital assets, net of related debt. The remaining portion of the net assets represents a deficit balance in unrestricted net assets of \$590 million.
- Total net assets decreased by \$356 million. For governmental activities, expenses exceeded revenues by \$363 million. For business type activities, revenues exceeded expenses by \$7 million.
- General revenues for governmental activities were \$1.1 billion. Of this amount, \$626 million or 55 percent was attributable to sales tax and vehicle license fees while property taxes accounted for \$497 million or 43 percent.
- Program revenues for governmental activities were \$1.8 billion. Of this amount, \$1.3 billion or 73 percent was attributable to operating grants and contributions while charges for services accounted for \$422 million or 23 percent.
- The total expenses for governmental activities were \$3.3 billion. Public protection accounted for \$1.2 billion or 35 percent of this amount while public assistance accounted for \$1.1 billion or 32 percent. Additionally, health and sanitation accounted for \$565 million or 17 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) **Government-wide** financial statements 2) **Fund** financial statements, and 3) **Notes** to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

The illustration below depicts the required components of the basic financial statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) Required Supplementary Information

Government-wide Financial Statements are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all County assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public protection, public ways and facilities, public assistance, health and sanitation, recreational and cultural, and education. The business-type activities of the County include airport operations, wastewater management and sanitation districts.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains twenty-eight individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Tobacco Securitization Special Revenue Fund, and the Tobacco Securitization Joint Special Revenue Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the Combining Financial Statements and Supplementary Information section in this report.

Proprietary funds are generally used to account for services for which the County charges customers - either outside customers, or internal departments of the County. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The County maintains the following types of proprietary funds:

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) Required Supplementary Information

- **Enterprise funds** are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for Sanitation Districts and Other (nonmajor) enterprise funds. Nonmajor enterprise funds are combined and aggregated. Individual fund data for each nonmajor enterprise fund is provided in the Combining Financial Statements and Supplementary Information section in this report.
- **Internal service funds** are an accounting device used to accumulate and allocate costs internally among the County's various functions. Internal service funds are used to account for the financing of public works and communications equipment; the financing of materials and supplies (purchasing); for start up services for new and existing county service districts; for the County's uninsured risk management activities; the financing of fleet services; for facilities management activities; for the financing of information technology services; and for the financing of clothing and personal sundry items for persons institutionalized at various county facilities. Additionally, mail services are included within the facilities function, and printing and record storage services are included in the purchasing function. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

The County's eight internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in the Combining Financial Statements/Schedules and Supplementary Information section in this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information is presented concerning the County's General Fund budgetary schedule, and San Diego County Employees Retirement Association (SDCERA) pension schedules. The County adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. In addition, a budgetary comparison schedule has been provided for the Tobacco Securitization Special Revenue Fund for it was determined to be a major governmental fund. The SDCERA pension schedules have been provided to present SDCERA's progress in funding its obligation to provide pension benefits to County employees.

Combining Financial Statements/Schedules and Supplementary Information section of this report presents combining and individual fund statements and schedules referred to earlier that provide information for nonmajor governmental funds, enterprise funds and internal service funds and are presented immediately following the Required Supplementary Information section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Required Supplementary Information

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets June 30, 2004 (In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets:						
Current and other assets	\$ 1,678,164	1,834,009	81,031	82,211	1,759,195	1,916,220
Capital assets	2,680,570	2,665,784	81,938	71,756	2,762,508	2,737,540
Total assets	4,358,734	4,499,793	162,969	153,967	4,521,703	4,653,760
Liabilities:						
Long-term liabilities	2,301,177	1,972,099	3,538	494	2,304,715	1,972,593
Other liabilities	231,636	339,539	1,588	1,806	233,224	341,345
Total liabilities	2,532,813	2,311,638	5,126	2,300	2,537,939	2,313,938
Net Assets:						
Invested in capital assets, net of related debt	2,324,806	2,261,697	78,485	71,293	2,403,291	2,332,990
Restricted	169,983	243,815		15	169,983	243,830
Unrestricted	(668,868)	(317,357)	79,358	80,359	(589,510)	(236,998)
Total net assets	\$ 1,825,921	2,188,155	157,843	151,667	1,983,764	2,339,822

Analysis of Net Assets

Net assets may serve over time as a use indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$1.98 billion at the close of fiscal year 2003-2004. The County also had positive balances in two of its categories of net assets, (Invested in capital assets net of related debt and Restricted net assets). Unrestricted assets had a deficit balance of \$590 million.

The largest portion of the County's net assets (121 percent) reflects its investment of \$2.4 billion in capital assets (e.g. land, infrastructure, buildings, and equipment); less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the County's net assets, \$170 million (9 percent), represents resources that are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws/regulations of other governments, or restrictions imposed by law through constitutional provisions or legislation.

The remaining portion of the County's net assets represents a deficit unrestricted net assets balance of \$590 million (an increase of \$353 million). This deficit was due in large part to the issuance of \$454 million in taxable pension obligation bonds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Required Supplementary Information

Changes in Net Assets

For the Year Ended June 30, 2004
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues:						
Charges for services	\$ 421,961	408,860	27,946	27,336	449,907	436,196
Operating grants and contributions	1,339,083	1,288,166	4,153	3,769	1,343,236	1,291,935
Capital grants and contributions	67,357	40,587	1,539	839	68,896	41,426
General revenues:						
Property taxes	496,917	459,340			496,917	459,340
Interest	18,452	30,213	417	1,437	18,869	31,650
State allocation of sales tax and vehicle license fees	625,577	636,225			625,577	636,225
Other	4,200	3,964			4,200	3,964
Total revenues	2,973,547	2,867,355	34,055	33,381	3,007,602	2,900,736
Expenses:						
General government	234,759	234,062			234,759	234,062
Public protection	1,173,532	1,140,484			1,173,532	1,140,484
Public ways and facilities	160,344	142,356			160,344	142,356
Public assistance	1,052,911	1,035,065			1,052,911	1,035,065
Health and sanitation	564,796	598,189			564,796	598,189
Recreational and cultural	26,493	23,520			26,493	23,520
Education	31,722	30,850			31,722	30,850
Interest expense	91,897	87,627			91,897	87,627
Sanitation Districts			15,828	15,216	15,828	15,216
Other Enterprise Funds			11,378	11,482	11,378	11,482
Total expenses	3,336,454	3,292,153	27,206	26,698	3,363,660	3,318,851
Excess(deficiency) before special item and transfers	(362,907)	(424,798)	6,849	6,683	(356,058)	(418,115)
Special Item: gain on sale of properties		474		27		501
Transfers	673	(160)	(673)	160		
Increase(decrease) in net assets	(362,234)	(424,484)	6,176	6,870	(356,058)	(417,614)
Net assets at beginning of year	2,188,155	2,612,639	151,667	144,797	2,339,822	2,757,436
Net assets at end of year	\$ 1,825,921	2,188,155	157,843	151,667	1,983,764	2,339,822

Analysis of Changes in Net Assets

The County's net assets decreased by \$356 million during the fiscal year 2003-2004.

Governmental activities

Governmental activities decreased the County's net assets by \$362 million. This decrease was largely due to the \$450 million of contributions paid to SDCERA during fiscal year 2003-2004 to reduce the County's unfunded accrued actuarial liability. This was offset in part by a change in accounting estimate reflected as a reduction of \$54 million to the public protection function expense on the Government-wide statement of activities that resulted from the reduction of the County's projected liability of landfill closure and postclosure costs from \$101 million at June 30, 2003. For further information, please see the Notes to the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Required Supplementary Information

Revenue

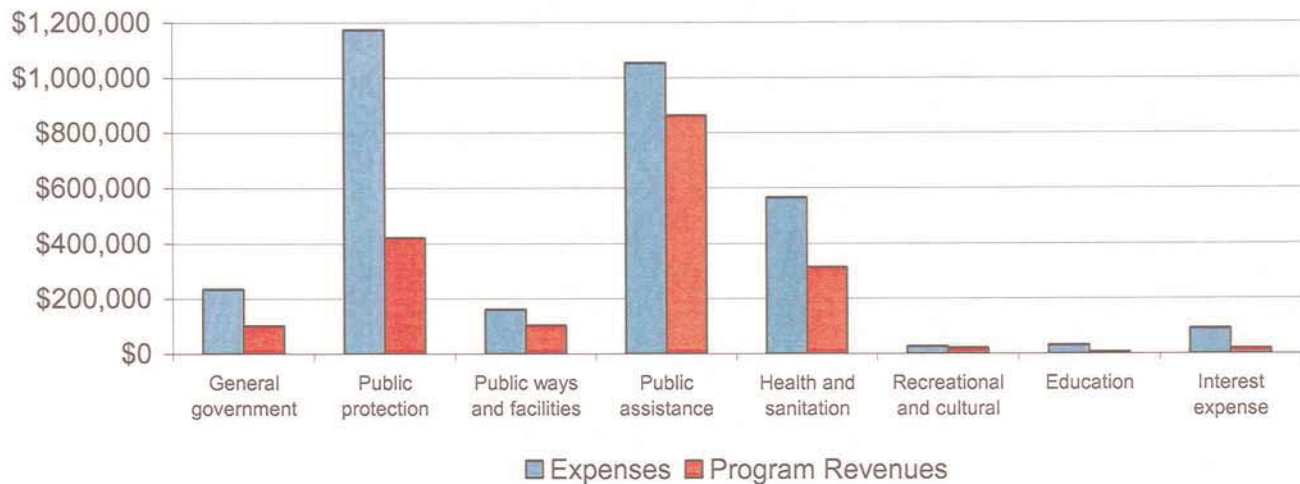
Total revenues for governmental activities were \$2.97 billion, an increase of 4 percent or \$106 million over the previous year.

Operating and capital grants and contributions increased by \$78 million or 6 percent, due in part to donated infrastructure (roads), and monies received from governmental agencies related to Firestorm 2003.

Property tax revenues increased by \$38 million or 8 percent during the year. Most of this increase was attributable to the strong real estate market and continued growth in the assessed value of property.

State allocation of sales tax and vehicle license fees decreased by \$11 million or 2 percent. Most of this decrease was attributable to a decrease in motor vehicle license fee revenue received from the State.

Expenses and Program Revenues - Governmental Activities (In Thousands)



Expenses

Total expenses for governmental activities were \$3.34 billion. Public protection is the largest function in expense (35 percent), followed by public assistance (32 percent) and health and sanitation (17 percent). These ratios for revenues and expenses are substantially similar to 2003. Of the total expenses, \$1.1 billion, or 34 percent, were financed by taxes. Expenses increased by \$44 million or 1 percent, as further explained below.

Public protection expenses increased by \$33 million, or 3 percent. This amount includes a reduction of \$54 million in expenses associated with a change in accounting estimate that resulted from the reduction of the County's projected liability of landfill closure and postclosure costs at June 30, 2003. Without this adjustment, the increase in public protection would have been \$87 million or 8 percent due in part to costs incurred related to the October 2003 firestorm by the Office of Emergency Services and other departments within the Public Safety and Land Use and Environment Groups.

Public assistance expenses increased by \$18 million or 2 percent. This was to an increase in salaries and benefits of \$40 million, offset by pension costs of approximately \$22 million.

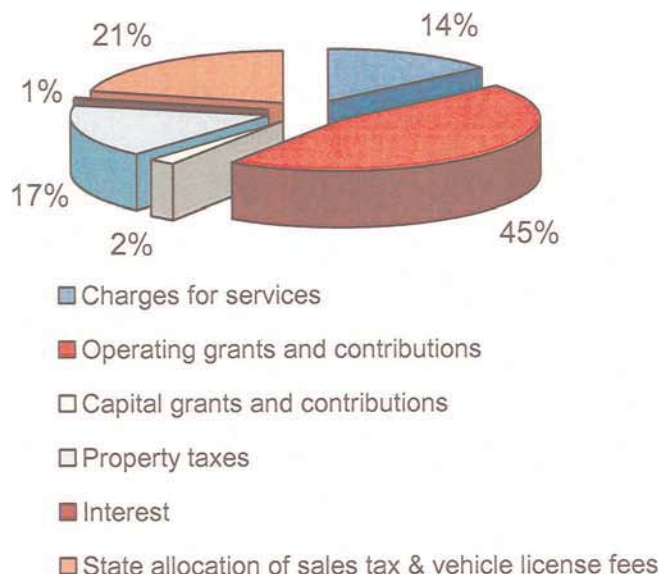
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) Required Supplementary Information

Revenues By Sources

The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown, for governmental activities overall, without regard to program, operating grants and contributions are the largest single source of funds (45 percent). Operating grants and contributions are monies received from parties outside the County and are generally restricted to one or more specific programs. Examples of operating grants and contributions include State and Federal revenue for public assistance programs and for health and sanitation programs. General revenues such as property taxes and state allocation of sales tax and vehicle license fees are not shown by program, but are effectively used to support program activities Countywide. State allocation of sales tax and vehicle license fees (21 percent) and property taxes (17 percent) are the second and third largest sources of funds for the County.

At the end of fiscal year 2003-2004, total revenues for the governmental activities were \$2.97 billion, while total expenses for governmental activities were \$3.34 billion.

Revenues by Source - Governmental Activities (In Thousands)



Other factors concerning the finances of the County's major governmental funds are discussed in the Governmental Funds section of the "Financial Analysis of the County's Funds."

Business-type Activities

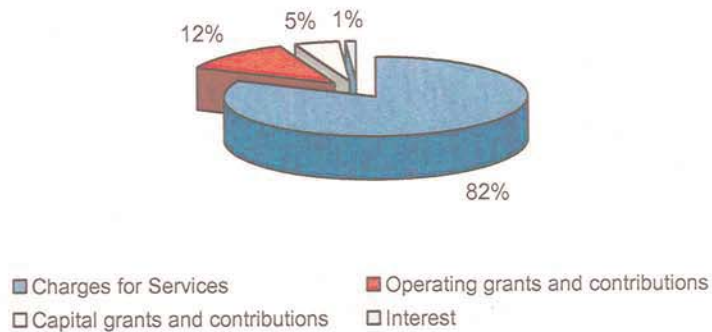
The County has two business-type activities: Sanitation Districts and Other. Business-type activities increased the County's net assets by \$6 million.

Revenues

At June 30, 2004, total revenues for the business-type activities were \$34 million. In keeping with the intent of recovering all or a significant portion of their costs through user fees and charges, business-type activities reported charges for services as their largest source of revenue (82 percent). Operating grants and contributions as well as capital grants and contributions accounted for 17 percent of business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) Required Supplementary Information

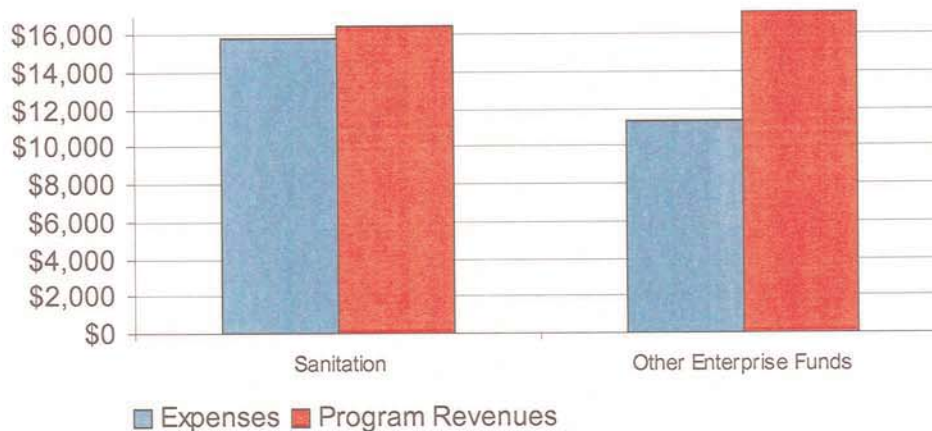
Revenues By Source - Business-Type Activities
(In Thousands)



Expenses

At the end of fiscal year 2003-2004, the business-type activities reported total expenses of \$27 million. The largest expense category was Sanitation Districts, which had expenses of \$16 million or 58 percent of the total business activities. Other factors concerning the finances of the County's enterprise funds are discussed in the Proprietary Funds section of the "Financial Analysis of the County's Funds."

Expenses and Program Revenues - Business-Type Activities (In
Thousands)



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Required Supplementary Information

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Major Governmental Funds reported by the County include the General Fund, Tobacco Securitization Special Revenue Fund and the Tobacco Securitization Joint Special Revenue Fund. Nonmajor Governmental Funds include Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

As of the end of fiscal year 2003-2004, the County's governmental funds reported combined ending fund balances of \$1.29 billion, a decrease of \$57 million in comparison with the prior year fund balance. \$872 million of the total June 30, 2004 amount constitutes unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed, (1) to liquidate existing contracts and purchase orders (\$114 million), (2) for landfill closure costs (\$23 million), (3) to pay debt service (\$78 million), and (4) for a variety of other purposes (\$207 million).

Revenues for governmental functions overall totaled \$2.9 billion representing a 3 percent increase. Expenditures for governmental functions, totaled \$3.4 billion, a 1 percent increase from the fiscal year ended June 30, 2003.

GENERAL FUND

The General Fund is the chief operating fund of the County. At the end of fiscal year 2003-2004, the unreserved fund balance of the General Fund was \$338 million, while total fund balance was \$551 million, a decrease of \$48 million from fiscal year 2002-2003. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 11 percent of total General Fund expenditures of \$2.9 billion, while total fund balance represents 19 percent of that same amount.

TOBACCO SECURITIZATION SPECIAL REVENUE FUND

This Special Revenue Fund is used to account for the \$411 million (net of closing costs and reserve requirements) the County received from the Tobacco Asset Securitization Corporation related to the sale of 25 years of tobacco settlement revenue in fiscal year 2001-2002. The County will continue to invest these funds in investment products to maximize the sustained long-term use of these dollars.

TOBACCO SECURITIZATION JOINT SPECIAL REVENUE FUND

This Special Revenue Fund accounts for the transactions of the San Diego County Tobacco Asset Securitization Corporation and Tobacco Securitization Joint Powers Authority, two component units that are blended into the County's financial statements.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The proprietary funds financial statements provide separate information for the Sanitation Districts Funds, which are considered to be major funds of the County. Conversely, the nonmajor Enterprise Funds and the Internal Service Funds are combined into single, aggregated presentations in the proprietary fund financial statements with the individual fund data provided in combining statements,

which can be found in the Combining Financial Statements/Schedules and Supplemental Information section of this report. Due to the quantitative nature of the Airport and the Wastewater Management Enterprise Funds, the county has elected to not report them as major funds beginning fiscal year 2003-04. Therefore, these funds have been included in the Other Enterprise Funds column in the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Required Supplementary Information

Sanitation Districts

The change in net assets for the Sanitation Districts decreased from \$2.4 million in fiscal year 2002-2003 to \$977 thousand in fiscal year 2003-2004. This change was largely due to a 47 percent increase in expenses for repairs and maintenance (from \$2.4 million to \$3.5 million) and a 72 percent decrease in revenue from interest and dividends (\$1 million). While the charges for services increased by 2 percent and the sewage processing costs decreased by 5 percent, the increased revenue and the savings amounted to \$781 thousand.

Fiduciary Funds

The County maintains fiduciary funds for the assets of the Pension Trust Fund, the Investment Trust Fund, and the Agency Funds.

Pension Trust Fund

This fund is under the control of the Board of Retirement. The fund accumulates employer and employee contributions and earnings from the fund's investments. Disbursements are made from the fund for retirement, disability and death benefits and refunds. This fund includes all assets of the retirement system. As of the end of fiscal year 2003-2004, the net assets of the Pension Trust Fund totaled \$5.5 billion, an increase of \$1.4 billion over the prior year. The change is primarily due to the following: (a) County and member contributions of \$734 million, including \$450 million in pension obligation bond proceeds; (b) appreciation in the fair value of pension trust investments and investment income of \$936 million; less (c) member benefits paid and pension costs of \$265 million.

Investment Trust Fund

This fund was established to account for the external portion of the County Treasurer's investment pool. This fund consists of school districts, special districts, and funds held for other governments. The Investment Trust Fund's net assets totaled \$2.4 billion, a decrease in net assets of \$81 million, primarily resulting from distributions of teeter and school bond proceeds.

Agency Funds

The Agency Funds maintain assets held in an agent capacity for other governments, organizations and individuals. These assets do not support the County's programs or services. Any portion of the Agency Funds' assets held at fiscal year end for other County funds, are reported in those funds rather than in the Agency Funds.

General Fund budgetary highlights

The County's final budget differs from the original budget in that it contains supplemental appropriations approved during the fiscal year for various programs and projects, as well as transfers of appropriations, budget corrections, re-budgets, and account reclassifications. At June 30, 2004, the variances between the original and final budgets for the deficiency of revenues under expenditures (\$527.6 million) and for other financing sources, \$450.1 million, resulted in a total change of (\$77.5 million) in budgeted fund balance between the original and final budgets.

Increased appropriations caused significant variances between the original and the final budgets as follows:

- \$29.2 million related to Firestorm 2003 activities in public protection, health and sanitation, and recreation and culture. The source of funding was \$19.6 million in fund balance, \$3.0 million in transfer of appropriations from contingency reserves, and \$6.6 million in State and Federal grants and other revenue. The appropriations related to immediate responses to emergency situations as well as to longer-term efforts of repairs and prevention and affect both private and public real and personal property. Specific programs included burned automobile and other debris removal, counseling and other assistance for fire victims, repair of guardrails on County-owned roads, and repairs to County parks.
- \$454.1 million in long-term debt proceeds from the issuance of Taxable Pension Obligation Bonds. Bond proceeds were expended across all functions for the purpose of reducing the unfunded actuarial accrued liability to SDCERA.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

- \$30.8 million for a new electronic voting system in the General function, funded by Federal and State grants, and management reserves.
- \$17.7 million for salaries and benefits across all functions for incentives earned in Fiscal Year 2002-2003 through the County's Quality First program, funded by fund balance.
- \$14.7 million for services by the Health & Human Services Agency for health and sanitation and public assistance, funded by increased intergovernmental revenue.
- \$8.1 million net change in appropriated management reserves for future one-time projects, across all functions, including new reserves of \$17.0 million appropriated from prior year's fund balance.
- In public protection, \$3.5 million for a new fire and safety helicopter funded by fund balance and \$4.7 million for appropriations related to homeland security, funded by a combination of State funds and fund balance
- \$13.3 million for costs in health and sanitation associated with closing a former County-owned landfill, based on funds set aside for that purpose.

In addition, the installation of a new accounting system added \$19.4 million in budgeted revenue associated with prior year encumbrances.

Actual revenues fell short of the final budgeted amounts by \$123 million, while expenditures fell short of the budget by \$268.8 million. The combination of revenue and expenditure shortfalls resulted in a net favorable operating variance of \$145.8 million. Other financing sources and uses of funds resulted in a favorable variance from budget of \$39.7 million; an increase to the reserve for inventories of materials and supplies, a favorable variance of \$.2 million. These combined variances result in a net variance in fund balance of \$185.8 million. Some highlights of the actual results compared to budgeted results are:

Vehicle License Fee (VLF) Reduction. Collected by the State and distributed to cities and counties as general purpose revenues, the VLF is an annual fee on the ownership of registered vehicles. Since 1999, California drivers had paid a lower VLF rate than the legislated amount, with the shortfall backfilled by State revenues. The acceleration of the State budget crisis in June 2003 resulted in a series of events that first suspended the backfill and subsequently eliminated VLF general purpose revenues for the County altogether. (The County continues to receive VLF under realignment health, mental health, and social services programs.) With a budget of \$195.0 million and revenues of \$150.8 million budget, the unfavorable variance due to the backfill loss was \$44.2 million. (See also the VLF discussion in the section below entitled "Economic Factors and Next Year's Budget and Rates.")

Salaries and Benefits. In the continuing environment of uncertainty over State and Federal funding, many County functions have deferred hiring staff for ongoing programs in anticipation of future budget constraints that began in fiscal year 2003-2004. The total favorable variance in this category was \$43.0 million across all functions.

Health and Human Services Agency. Funded by a combination of State, Federal, and County revenues, most Agency programs are carried out in the functional areas of health and sanitation and public assistance, with favorable expenditure variances of \$35.2 million and \$71.7 million, respectively. The expenditure variances resulted from changes in demand for services in various programs, reductions in service level requirements, decreased need for contracted services, and reduced aid payments. These lowered expenditures were offset by corresponding reductions in Federal and State revenue.

Debt management. The County planned to pay down an additional \$53.2 million of the principal debt of the 2002 Pension Obligation Bonds (POBs). Due to market conditions this did not occur. Instead, appropriations of \$12.1 million were used to prepay SANCAL debt, resulting in a positive variance of \$41.5 million in transfers out. The savings were re-budgeted for fiscal year 2004-2005 to defease the remaining 1994 POBs.

Strong real estate markets. The real estate market in San Diego County has been robust for several years due to low interest rates and high demand for residential and commercial real estate. This segment of the economy contributed to positive variances in several revenue categories, including \$38.4 million in property and other taxes and \$9.1 million in charges for document and recording services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) Required Supplementary Information

Delayed expenditures. Various County projects such as maintenance and information technology take place over more than one fiscal year; however, at inception they are budgeted at full expected cost, resulting in favorable expenditure variances that are re-budgeted in the new fiscal year. For example, in public protection, \$8.2 million in unexpended appropriations for information technology projects, regional communications system expansion, and the East Mesa Juvenile Detention Facility were re-budgeted in fiscal year 2004-05. Also, \$3.5 million appropriated during the year for a fire and safety helicopter as noted above was not expended and was re-budgeted in fiscal year 2004-05.

Firestorm 2003. Not all of the funds that were appropriated to cover estimated costs of Firestorm 2003 recovery programs were expended. In most cases, the remaining funds have been re-budgeted and will be spent in subsequent years. In recreation and culture, for example, \$4.3 million appropriated for parks repair and other fire-related projects were unspent. Lesser unspent amounts for other Firestorm-impacted programs included abandoned vehicle abatement (\$.1 million) and consultant costs for plan checks (\$.2 million).

Funding for public protection. The County received several grants that had not been budgeted, including \$10.9 million for reimbursement of prior years' costs under the Federal Southwest Border Grant program. In another revenue category, however, Charges for Services, revenue from the cities that contract with the Sheriff is \$5.5 million below budget, due to reduced demand and adjustments.

Reserves. The County appropriates annually management and contingency reserves based on both ongoing general purpose revenues and prior years' fund balance for a variety of one-time capital and operating expenditures as well as potential emergencies, such as Firestorm 2003. Unexpended reserves resulted in a positive variance of \$27.1 million. In addition, in fiscal year 2003-04, the County set aside \$23.0 million for economic uncertainty with the intent that it not be spent unless unusual needs arose; of that amount, \$22.1 million was unexpended at year-end.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2004, the County's capital assets for both the governmental and business-type activities was \$2.8 billion net of accumulated depreciation. Investment in capital assets includes land, construction in progress, structures and improvements, equipment, and infrastructure (including roads, bridges, flood channels, and traffic signals). The significant capital asset activity in fiscal year 2003-2004 was as follows:

Governmental Activities

- \$31.25 million towards the construction and improvement of County maintained roads, bridges, and other road related infrastructure. An additional \$31 million was donated by developers.
- \$10.45 million towards the construction of the East Mesa Juvenile Detention Facility. Total project costs are estimated at \$52.95 million.
- \$4.41 million for the acquisition of Boulder Oaks Ranch real property (Ramona) for wildlife habitat preservation and restoration.
- \$3.29 million for the acquisition of real property in the Otay River Valley area for open space habitat restoration and passive recreation.
- \$2.63 million for acquisition of real property in the Ramona area for an intergenerational community campus.
- \$2.33 million for Multiple Species Conservation Program acquisitions.
- \$2.32 million for the Kearny Mesa Assessor Recorder County Clerk building. Total project costs are estimated at \$6.87 million.
- \$2.30 million towards the construction of the Julian Shared Use Library. Total project costs are estimated at \$3.09 million.
- \$2.2 million for the acquisition of real property in North County for the future site of offices for Assessor/Recorder/County Clerk, the Department of Planning and Land Use, and the Department of Environmental Health.
- \$2.04 million for a remodel of the Sheriff's Crime Lab. Total project costs are estimated at \$2.6 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

- \$1.65 million towards the construction of the Tijuana River Valley Sports Park. Total project costs are estimated at \$2.77 million.
- \$23.9 million towards the construction of numerous other capital outlay projects.
- During fiscal year 2003-2004, capital assets valued at \$21.2 million, representing the four transit centers, was removed from inventory as a result of the divestiture of the County Transit System to the Metropolitan Transit Development Board.

Business-Type Activities

- \$3.19 million for the acquisition of land for Palomar Airport.
- \$2.19 million towards improvements in the Spring Valley Sanitation district including Outfall Sewer Rehabilitation, improvements to Central Avenue Sewer, Jamacha pump station modifications, and La Presa Trunk upgrade.
- \$533 thousand towards the replacement of the Galloway Pump Station Force Main in Alpine Sanitation District. Total project costs are estimated at \$2.1 million.
- \$232 thousand towards the replacement of the Julian Sanitation District septic tank and aerobic digester. Total project costs are estimated at \$629 thousand.

For government-wide financial statement presentation, governmental fund depreciable capital assets were depreciated from the acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures.

Additional information about the County's capital assets can be found in the notes to the basic financial statements.

Capital Commitments

As of June 30, 2004, capital commitments included the following:

- \$32.7 million for the Registrar of Voters Integrated Voting System and the Medics Health Information System
- \$35.7 million for the Valley Center Road, Riverside Drive, Camino Canada North County Animal Shelter, Otay Valley Regional Park, Spring Valley Gym/Teen Center, Polinsky Nursery, Vista Detention and the Information Technology Enterprise Resource Planning System financing
- \$3.9 million for the Galloway Wastewater Pump Station and the Jamacha Blvd Sewer

Long-Term Obligations

At June 30, 2004, the County had outstanding governmental activity long-term obligations of \$2.3 billion. Of this amount, \$344 million pertains to outstanding certificates of participation, \$37 million pertains to capital leases, and \$1.9 billion pertains to other long-term obligations that include \$1.27 billion of taxable pension obligation bonds, \$440 million of San Diego County Tobacco Asset Securitization Corporation Bonds, \$98 million for claims and judgments, \$47 million for landfill closure and postclosure costs, \$78 million for compensated absences, \$6 million for other loans, \$4 million for Redevelopment Agency revenue bonds, and \$1 million for arbitrage rebate.

Long-term obligations for business-type activities totaled \$3.5 million and consisted of \$3 million for capital loans, \$345 thousand for compensated absences and \$195 thousand for a long-term contract payable in the Spring Valley Sanitation District.

During fiscal year 2003-2004, the County's total principal amount of bonds and notes payable for governmental activities increased by \$386 million, before giving affect to the unamortized issuance premiums, discounts and unamortized deferred amount on refunding. The increase is due primarily to the County of San Diego's issuance of \$454 million in taxable pension obligation bonds, offset by \$70 million in principal debt service payments. The general long-term obligations for the business-type activities increased by \$46 thousand due to an increase in compensated absences liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) Required Supplementary Information

The County's credit ratings on its bonded program are as follows:

	Moody's	Standard & Poor's	Fitch Ratings
Certificates of Participation	A1	AA-	AA-
Pension Obligation Bonds			
1994 Series A	Aa3	AA-	Not Rated
2002 Series A, B & C	Aa3	AA-	AA-
2004 Series A, B & C	Aa3	AA-	AA-

In addition, the County has an Issuer Credit Rating of Aa2 from Moody's and AA from Standard & Poor's. These ratings reflect the County's favorable general credit characteristics, which include a strong local economy, a sound financial position and a moderate debt profile. On 2004, Moody's revised the County's negative outlook to stable and Standard & Poor's revised their outlook from positive to stable.

Useful bond ratios to management, citizens, and investors are as follows:

	Fiscal Year 2004	Fiscal Year 2003
Net Bonded Debt	\$ 1,576,479	\$ 1,191,754
Net Bonded Debt per Capita	523	402
Ratio of Net Bonded Debt to Assessed Value	.62 percent	.51 percent

Additional information about the County's long-term obligations can be found in the notes to the basic financial statements.

Economic Factors and Next Year's Budget and Rates

- The fiscal year 2004-2005 General Fund budget used \$129.2 million out of \$215.4 million in unreserved fund balance and \$4.0 million of reserved fund balance. Fund balance is used as a source of funds for one-time items.
- The development of the fiscal year 2004-2005 budget was based on expectations for demand for services and availability of funding to support those services. Two related factors pose significant negative risks to the County's expectations: the State of California's forecasted budget imbalance for 2005-06 and beyond and the continuing sluggishness of the State's economy.
 - The U.S. and California economies continue to give mixed signals regarding solid growth. The San Diego economy, however, continues to show positive growth (i.e., gross regional product at 2.0% for 2001, at 2.7% for 2002, 3.5% for 2003, and at 4.2% for 2004).
 - The State of California's budget crisis, which began in fiscal year 2001-2002, was fueled by a decline in taxable income. The decline in taxable income was directly related to the weakened economy and the huge stock market declines that occurred beginning in March 2000. Counties, as agents of the State, rely heavily on State revenues to fund locally provided programs. Further, the State has taken action in the past which has intertwined State revenues with local discretionary revenues. (See discussion on VLF below.) The State's budget crisis is not likely to be resolved soon. The Legislative Analyst's Office has estimated the budget shortfall will exceed \$6.0 billion for fiscal year 2005-2006.
- The County's general purpose revenues, with the exception of VLF, (i.e., property tax, sales tax, real property transfer tax, transient occupancy tax and other minor revenues) continued to perform well. Specifically:
 - The largest source of general purpose revenues is property taxes, representing 55% of the total. Property taxes were not directly impacted by weakness in the State economy. The demand for

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Required Supplementary Information

housing, boosted by low interest rates, has remained strong as attested to by significant increases in property values. For the last four years, local secured growth has been high (8.1% average annual growth) due to the County's strong overall economy and healthy real estate market. This growth rate was expected to continue into Fiscal Years 2004-05 and 2005-06, however, the State of California's Fiscal Year 2004-05 Budget shifted \$27.5 million of County property taxes to schools in each of these 2 years. Property taxes for fiscal year 2004-2005 are expected to fall \$1.2 million or 0.3% below fiscal year 2003-2004 actuals.

- Vehicle License Fee (VLF) revenue. Beginning in Fiscal Year 2004-05, the County's share of VLF general purpose revenue was eliminated and replaced with money shifted from the County's Educational Revenue Augmentation Fund (ERAF). (The ERAF fund was established by state law in Fiscal Year 1992-93 to capture prescribed amounts of property tax to be shifted from local governmental agencies to local schools.) As noted above, this funding arrangement resulted from the State of California's FY 2004-05 budget actions and the signing of SB 1099. More specifically, the passage of SB 1099 made the following changes to the previous laws: eliminated the current VLF "offset" mechanism and permanently set the VLF rate at 0.65% as of January 1, 2005, eliminated VLF "backfill" payments along with the "trigger" provision in current law, replaced VLF backfill payments to cities and counties with property tax revenues shifted back from ERAF via a new VLF Property Tax Compensation Fund to be established by each county, established initial allocations for 2004-05 to each city and each county from the VLF Property Tax Compensation Fund, and provided for allocations in 2005-06 to be calculated based on a formula that takes into account adjusted actual allocations for Fiscal Year 2004-05 and the increase in gross taxable assessed value within each city or each county. This VLF/ERAF swap of funds follows State action during Fiscal Year 2003-04 to suspend VLF backfill payments during the first three months of that year. By August 2006 (Fiscal Year 2006-07), the State is required to make a one-time payment to counties and cities to make up for that suspension. The "loan" amount to be repaid to the County of San Diego is \$60.0 million.
- Sales tax (\$15.5 million and 2.4% of general purpose revenues) has been more sensitive to the slowdown. The Fiscal Year 2004-05 budgeted amount reflects a reduction from Fiscal Year 2003-04, but it is due to a reclassification of about one-fourth of the sales tax revenue (\$5.15 million in FY 2004-05) to "property taxes in lieu of sales tax" to comply with the State's "triple flip" legislation approved in Fiscal Year 2003-04. More specifically, effective July 1, 2004, provisions of AB7 X1, one of the 2003-04 State budget bills referred to as the "triple flip", took effect. It enabled the State to redirect one-quarter cent of the local sales and use tax to the State to repay up to \$15 billion in bonds authorized by Proposition 57 (March 2004) to help the State refinance its past debt. In turn, lost revenues are replaced on a dollar-for-dollar basis with countywide property tax revenues shifted back from the Educational Revenue Augmentation Fund (ERAF). Retail sales remain relatively strong in the unincorporated area with a before-triple-flip-adjustment sales tax growth of \$0.6 million (3.0%) over the Fiscal Year 2003-04 Operational Plan in Fiscal Year 2004-05. Actual sales tax revenue for 2003-04 totaled \$20.5 million.
- The real property transfer tax makes up about 2.7% of general purpose revenues. It is based on the dollar value of property sales and has been favorably impacted by the active real estate markets in the current environment of low interest rates. This revenue, too, was budgeted conservatively at 38% below fiscal year 2003-2004 actuals, but 5.9% above the fiscal year 2003-2004 budgeted level.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, San Diego, California 92101.





Basic Financial Statements



STATEMENT OF NET ASSETS

June 30, 2004

(In Thousands)

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit First 5 Commission
ASSETS				
Current assets:				
Equity in pooled cash and investments	\$ 728,287	69,877	798,164	165,229
Cash with fiscal agent	17,386		17,386	
Collections in transit	9,069	659	9,728	
Imprest cash	518	2	520	
Investments	18,786		18,786	
Receivables, net	386,439	1,387	387,826	7,478
Taxes receivable, net	34,488		34,488	
Internal balances	(9,106)	9,106		
Inventory of materials and supplies	9,476		9,476	
Deferred charges	1,792		1,792	
Deposits with others	1,494		1,494	
Prepaid items	1,295		1,295	26
Restricted assets:				
Cash with fiscal agent	59,134		59,134	
Investments	27,300		27,300	
Total current assets	1,286,358	81,031	1,367,389	172,733
Noncurrent assets:				
Restricted assets:				
Investments	339,922		339,922	
Investments	24,885		24,885	
Deferred charges	26,999		26,999	
Capital assets:				
Land, construction and contracts in progress	437,196	26,193	463,389	
Other capital assets, net of depreciation	2,243,374	55,745	2,299,119	
Total noncurrent assets	3,072,376	81,938	3,154,314	
Total assets	4,358,734	162,969	4,521,703	172,733
LIABILITIES				
Current liabilities:				
Accounts payable	88,704	1,038	89,742	3,211
Accrued payroll	61,688	270	61,958	
Accrued interest	20,943		20,943	
Deferred revenue	60,301	280	60,581	
Current portion of long-term obligations	109,819	201	110,020	
Total current liabilities	341,455	1,789	343,244	3,211
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	2,191,358	3,337	2,194,695	
Total liabilities	2,532,813	5,126	2,537,939	3,211
NET ASSETS				
Invested in capital assets, net of related debt	2,324,806	78,485	2,403,291	
Restricted for:				
Capital projects	6,249		6,249	
Debt service	77,640		77,640	
Inactive landfill closure	23,170		23,170	
Other purposes	62,924		62,924	169,522
Unrestricted	(668,868)	79,358	(589,510)	
Total net assets	\$ 1,825,921	157,843	1,983,764	169,522

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(In Thousands)

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 234,759	93,143	7,353	832
Public protection	1,173,532	206,679	196,444	18,662
Public ways and facilities	160,344	22,536	49,480	31,322
Public assistance	1,052,911	6,245	855,723	
Health and sanitation	564,796	84,650	228,254	250
Recreational and cultural	26,493	6,141	990	14,021
Education	31,722	2,567	839	2,270
Interest expense	91,897			
Total governmental activities	3,336,454	421,961	1,339,083	67,357
Business-type activities:				
Sanitation Districts	15,828	15,765		683
Other Enterprise Funds	11,378	12,181	4,153	856
Total business-type activities	27,206	27,946	4,153	1,539
Total primary government	3,363,660	449,907	1,343,236	68,896
Component unit:				
First 5 Commission	29,760		41,063	
Total component unit	\$ 29,760		41,063	

General revenues:
 Taxes:
 Property taxes
 Franchise taxes
 Contributions from State
 State allocation of sales tax & vehicle license fees
 Interest
 Transfers
 Total general revenues and transfers
 Change in net assets
 Net assets - beginning (Component Unit restated)
 Net assets - ending

(Cont)

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

Net (Expense) Revenue and Changes in Net Assets				Functions/Programs
Primary Government		Component Unit		
Governmental Activities	Business-Type Activities	Total	First 5 Commission	
(133,431)		(133,431)		Governmental activities:
(751,747)		(751,747)		General government
(57,006)		(57,006)		Public protection
(190,943)		(190,943)		Public ways and facilities
(251,642)		(251,642)		Public assistance
(5,341)		(5,341)		Health and sanitation
(26,046)		(26,046)		Recreational and cultural
(91,897)		(91,897)		Education
(1,508,053)		(1,508,053)		Interest expense
				Total governmental activities
	620	620		Business-type activities:
	5,812	5,812		Sanitation Districts
	6,432	6,432		Other Enterprise Funds
				Total business-type activities
(1,508,053)	6,432	(1,501,621)		Total primary government
			11,303	Component Unit:
				First 5 Commission
			11,303	Total component unit
				General revenues:
\$ 496,917		496,917		Taxes:
4,200		4,200		Property taxes
				Franchise taxes
625,577		625,577		Contributions from State
18,452	417	18,869	651	State allocation of sales tax & vehicle license fees
673	(673)			Interest
1,145,819	(256)	1,145,563	651	Transfers
(362,234)	6,176	(356,058)	11,954	Total general revenues and transfers
2,188,155	151,667	2,339,822	157,568	Change in net assets
\$ 1,825,921	157,843	1,983,764	169,522	Net assets - beginning (Component Unit restated)
				Net assets - ending

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004
(In Thousands)

	General Fund	Tobacco Securitization Special Revenue Fund	Tobacco Securitization Joint Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS					
Equity in pooled cash and investments	\$ 310,870	245		254,074	565,189
Cash with fiscal agent	10,090			7,296	17,386
Collections in transit	7,334			1,517	8,851
Imprest cash	299			17	316
Investments	2			43,669	43,671
Taxes receivable, net	34,488				34,488
Receivables, net	218,662	902	392	121,563	341,519
Due from other funds	178,321	6		13,468	191,795
Advances to other funds	948			120	1,068
Inventory of materials and supplies	6,941			1,672	8,613
Deposits with others				1,494	1,494
Prepaid items	10			1,285	1,295
Restricted assets:					
Cash with fiscal agent			53,099	6,035	59,134
Investments		352,910		14,312	367,222
Total assets	767,965	354,063	53,491	466,522	1,642,041
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	57,300			15,031	72,331
Accrued payroll	57,152			3,013	60,165
Due to other funds	24,744	7,336		83,036	115,116
Advances from other funds				11,113	11,113
Deferred revenue	77,769			11,384	89,153
Total liabilities	216,965	7,336		123,577	347,878
Fund balances:					
Reserved for encumbrances	84,031			30,427	114,458
Reserved for notes receivable and advances	7,555			32,583	40,138
Reserved for deposits with others				311	311
Reserved for landfill closure	16,170			7,000	23,170
Reserved for inventory of materials and supplies	6,941			1,672	8,613
Reserved for debt service			39,966	38,054	78,020
Reserved for other purposes	98,595		13,525	45,362	157,482
Unreserved:					
Designated for subsequent years' expenditures	122,334			786	123,120
Designated for landfill postclosure and inactive landfill maintenance				76,263	76,263
Undesignated	215,374	346,727			562,101
Unreserved, reported in nonmajor:					
Special revenue funds				99,623	99,623
Capital projects funds				10,864	10,864
Total fund balances	551,000	346,727	53,491	342,945	1,294,163
Total liabilities and fund balances	\$ 767,965	354,063	53,491	466,522	1,642,041

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2004
(In Thousands)**

Total fund balances-governmental funds	\$ 1,294,163
Costs of issuances are reported as expenditures in governmental funds and thus have the effect of reducing fund balance because current financial resources have been used. In the government-wide statements however, bond issuance costs are reported as a deferred charge and amortized over the life of the bond issue.	28,791
When capital assets (land, buildings, equipment, infrastructure) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the County as a whole.	2,581,998
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(20,929)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.	28,895
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, current and long-term, are recorded in the statement of net assets.	(2,199,258)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individuals funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	112,261
Net assets of governmental activities	\$ <u>1,825,921</u>

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
For the Year Ended June 30, 2004
(In Thousands)

	General Fund	Tobacco Securitization Special Revenue Fund	Tobacco Securitization Joint Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 457,062			40,116	497,178
Licenses, permits and franchises	31,233			11,019	42,252
Fines, forfeitures and penalties	40,363			6,132	46,495
Revenue from use of money and property	12,721	2,536	2,041	8,569	25,867
Aid from other governmental agencies:					
State	649,829			551,449	1,201,278
Federal	588,815			112,242	701,057
Other	57,442			12,418	69,860
Charges for current services	246,381			31,256	277,637
Other revenue	32,058		29,961	3,894	65,913
Total revenues	2,115,904	2,536	32,002	777,095	2,927,537
Expenditures:					
Current:					
General	207,600		131	8,452	216,183
Public protection	1,172,110			44,166	1,216,276
Public ways and facilities	23,983			91,443	115,426
Health and sanitation	552,035			10,622	562,657
Public assistance	948,165			105,380	1,053,545
Education	5,798			25,510	31,308
Recreational and cultural	23,709			993	24,702
Capital outlay				54,958	54,958
Debt service:					
Principal			8,930	60,909	69,839
Interest	5,776		24,830	61,897	92,503
Bond issuance costs				4,095	4,095
Total expenditures	2,939,176		33,891	468,425	3,441,492
Excess (deficiency) of revenues over (under) expenditures	(823,272)	2,536	(1,889)	308,670	(513,955)
Other financing sources (uses):					
Sale of capital assets	7			4,037	4,044
Long term debt proceeds	454,113			66	454,179
Transfers in	483,333			292,834	776,167
Transfers (out)	(162,035)	(24,083)		(591,062)	(777,180)
Total other financing sources (uses)	775,418	(24,083)		(294,125)	457,210
Net change in fund balances	(47,854)	(21,547)	(1,889)	14,545	(56,745)
Fund balances - beginning of year	598,661	368,274	55,380	328,472	1,350,787
Increase (decrease) in:					
Reserve for inventory of materials and supplies	193			(72)	121
Fund balances - end of year	\$ 551,000	346,727	53,491	342,945	1,294,163

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(In Thousands)**

Net change in fund balances-total governmental funds	\$ (56,745)
Governmental funds accrue property tax revenue, which is deemed collectible within sixty days. However, in the statement of activities the total amount estimated to ultimately be collected is accrued.	(261)
Adjustment for reserve for inventory of materials and supplies.	121
Long-term revenues are not available as current resources, and therefore are not reported as revenue in the governmental funds.	(864)
The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds.	(4,044)
The book value of the sale of capital assets is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a "loss on sale of fixed assets" recorded as an expense in the statement of activities. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which asset acquisition and donations exceeded depreciation in the current period.	19,527
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service fund's costs for the year.	(3,602)
Repayment of bond principal and other long term obligations are reported as expenditures in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the County as a whole however, the principal and other payments for liabilities reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The County's long term obligations include bonds, loans and notes payable, capital leases, accumulated unpaid employee leave balances, arbitrage rebate, and closure and postclosure costs for the San Marcos landfill. The County's long term debt was reduced by these payments, principal payments to bondholders, and the adjustment to the San Marcos landfill closure and postclosure liability.	127,418
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceed amortization expense in the current period.	2,082
Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for bonds and notes payable and amortization of capitalized bond premiums, discounts and deferred amount of refunded debt that are expended in the governmental funds in the year paid.	627
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements however, issuing debt increases long-term liabilities in the statement of net assets and does not effect the statement of activities.	(454,179)
Liabilities for other long-term obligations are not accrued in governmental funds, but rather are recognized as expenditures when due.	7,686
Change in net assets of governmental activities	\$ <u>(362,234)</u>

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004
(In Thousands)

	Business-Type Activities			(Cont) Governmental
	Enterprise Funds			Activities -
	Sanitation	Other		Internal
	Districts	Enterprise Funds	Total	Service
				Funds
ASSETS				
Current assets:				
Equity in pooled cash and investments	\$ 64,303	5,574	69,877	163,098
Collections in transit	3	656	659	218
Imprest cash		2	2	202
Accounts and notes receivable	15	1,097	1,112	2,994
Due from other funds	280	1,537	1,817	19,731
Advances to other funds	135	9,412	9,547	757
Inventory of materials and supplies				863
Total current assets	64,736	18,278	83,014	187,863
Capital assets:				
Land	1,069	9,608	10,677	
Construction and contracts in progress	5,063	10,453	15,516	47,053
Buildings and equipment	2,182	36,323	38,505	103,431
Infrastructure	63,746		63,746	
Less accumulated depreciation	(27,054)	(19,452)	(46,506)	(51,912)
Total noncurrent assets	45,006	36,932	81,938	98,572
Total assets	109,742	55,210	164,952	286,435
LIABILITIES				
Current liabilities:				
Accounts payable	695	343	1,038	16,373
Accrued payroll		270	270	1,523
Accrued interest				14
Due to other funds	1,462	1,263	2,725	53,301
Claims and judgments				31,168
Advances from other funds	259		259	
Compensated absences		34	34	215
Deferred revenue		280	280	43
Bonds, notes and loans payable		167	167	115
Total current liabilities	2,416	2,357	4,773	102,752
Noncurrent liabilities:				
Compensated absences		311	311	1,937
Claims and judgments				66,621
Bonds, notes and loans payable	195	2,831	3,026	1,863
Total long-term liabilities	195	3,142	3,337	70,421
Total liabilities	2,611	5,499	8,110	173,173
NET ASSETS				
Invested in capital assets, net of related debt	44,552	33,933	78,485	98,572
Unrestricted	62,579	15,778	78,357	14,690
Total net assets	\$ 107,131	49,711	156,842	113,262

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.

Net assets of business-type activities

1,001
\$ 157,843

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004
(In Thousands)**

	Business-Type Activities Enterprise Funds			(Cont)
	Sanitation Districts	Other Enterprise Funds	Total	Governmental Activities - Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 15,765	12,181	27,946	267,932
Miscellaneous				1,367
Total operating revenues	15,765	12,181	27,946	269,299
OPERATING EXPENSES				
Salaries		5,685	5,685	31,788
Repairs and maintenance	3,466	412	3,878	23,218
Equipment rental		662	662	1,024
Sewage processing	9,701		9,701	
Contracted services		2,316	2,316	127,262
Depreciation	1,290	791	2,081	9,869
Utilities		129	129	20,058
Cost of material				18,794
Claims and judgments				29,096
Fuel				5,980
Other operating expenses	1,353	574	1,927	8,400
Total operating expenses	15,810	10,569	26,379	275,489
Operating income (loss)	(45)	1,612	1,567	(6,190)
NONOPERATING REVENUES (EXPENSES)				
Investment income	357	60	417	157
Grants		4,153	4,153	43
Interest expense	(18)	(177)	(195)	(24)
Loss on disposal of equipment				(528)
Other non operating expenses		(1,714)	(1,714)	(134)
Total nonoperating revenues (expenses)	339	2,322	2,661	(486)
Income (Loss) before contributions and transfers	294	3,934	4,228	(6,676)
Capital contributions	683	856	1,539	2,470
Transfers in		24	24	8,341
Transfers (out)		(697)	(697)	(6,655)
Change in net assets	977	4,117	5,094	(2,520)
Total net assets - beginning	106,154	45,594		115,782
Total net assets - ending	\$ 107,131	49,711		113,262

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds are reported with business-type activities.

1,082
\$ 6,176

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004
(In Thousands)

	Business-Type Activities			(Cont) Governmental
	Enterprise Funds			Activities- Internal Service Funds
	Sanitation Districts	Other Enterprise Funds	Total	
Cash flows from operating activities:				
Cash received from customers	\$ 15,748	11,531	27,279	269,161
Cash received from other funds	89	415	504	
Other cash receipts		1,440	1,440	
Other payments				(244)
Cash payments to suppliers	(10,590)	(5,387)	(15,977)	(213,982)
Cash payments to employees		(3,463)	(3,463)	(31,416)
Cash payments to other funds	(2,640)	(564)	(3,204)	(27,007)
Net cash provided by (used for) operating activities	2,607	3,972	6,579	(3,488)
Cash flows from non-capital financing activities:				
Grants		4,408	4,408	43
Other				
Loan proceeds				1,977
Transfers from other funds		24	24	7,716
Transfers to other funds		(697)	(697)	(6,028)
Advances from other funds				171
Advances to other funds		225	225	
Net cash provided by (used for) non-capital financing activities		3,960	3,960	3,879
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(3,824)	(8,713)	(12,537)	(11,009)
Capital contributions	683	856	1,539	2,286
Proceeds from sale of equipment				615
Principal paid on long-term debt	(19)	(155)	(174)	(860)
Interest paid on long-term debt	(18)	(177)	(195)	(24)
Net cash used for capital and related financing activities	(3,178)	(8,189)	(11,367)	(8,992)
Cash flows from investing activities:				
Interest	389	63	452	205
Net decrease in cash and cash equivalents	(182)	(194)	(376)	(12,275)
Cash and cash equivalents - beginning of year	64,488	6,426	70,914	171,914
Cash and cash equivalents - end of year	64,306	6,232	70,538	159,639
Reconciliation of operating income (loss):				
Operating income (loss)	(45)	1,612	1,567	(6,190)
Other non operating revenues		1,440	1,440	
Adjustments to reconcile:				
Inc (dec) in compensated absences		47	47	(79)
Inc in accrued payroll		92	92	495
Inc (dec) in due to other funds	747	817	1,564	(2,277)
Inc (dec) in accounts payable	543	(844)	(301)	(2,088)
Dec in claims and judgments				(2,949)
Inc in accounts receivable	(15)	(174)	(189)	(58)
Dec in inventory				260
Inc (dec) in deferred revenue		268	268	(4,372)
Dec (inc) in due from other funds	87	(77)	10	3,901
Depreciation	1,290	791	2,081	9,869
Net cash provided by (used for) operating activities	2,607	3,972	6,579	(3,488)
Non-cash investing and capital financing activities:				
Accrued interest income	33	3	36	93
Capital acquisitions included in accounts payable	451	168	619	1,346
Total non-cash investing and capital financing activities	\$ 484	171	655	1,439

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004
(In Thousands)

	Pension Trust Fund	Investment Trust Fund	Agency Funds
ASSETS			
Equity in pooled cash and investments	\$ 9,359	2,396,036	427,739
Cash with fiscal agent	59,593		13,349
Collections in transit		6,161	14,814
Imprest cash		30	4
Investments:			
Domestic equity securities	856,367		
Cash, cash equivalents, and securities for domestic equity swaps and futures	1,304,716		
International equity securities	1,188,889		
Cash, cash equivalents, and securities for international futures	60,222		
U.S. government obligations	293,002		
Domestic corporate bonds	442,670		
Short-term notes	48,350		
International bonds	517,703		
Cash for bond futures	206,426		
Securities lending collateral	375,485		
Alternative equity and real estate	501,238		
Taxes receivable			262,145
Accounts receivable			15,016
Interest and other receivables	60,751		
Due from other funds	9,336	14,170	5,342
Capital assets, net	2,981		
Total assets	<u>5,937,088</u>	<u>2,416,397</u>	<u>738,409</u>
LIABILITIES			
Accounts payable	52,899		
Due to other funds	65	9,154	61,830
Obligations under securities lending	375,485		
Due to other governments			615,478
Amount due for commercial paper notes			61,101
Total liabilities	<u>428,449</u>	<u>9,154</u>	<u>738,409</u>
NET ASSETS			
Held in trust for pension benefits and other purposes	<u>\$ 5,508,639</u>	<u>2,407,243</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2004
(In Thousands)

	Pension Trust Fund	Investment Trust Fund
ADDITIONS		
Contributions:		
Employer	\$ 700,583	
Plan members	33,609	
Additions to pooled investments		19,420,538
Total contributions	734,192	19,420,538
Investment earnings:		
Net increase (decrease) in fair value of investments	862,931	(17,777)
Interest income	67,222	43,383
Securities lending income	5,050	
Other income	56,912	
Total investment earnings	992,115	25,606
Less investment expenses	51,891	
Less securities lending expenses	3,753	
Net investment earnings	936,471	25,606
Total additions	1,670,663	19,446,144
DEDUCTIONS		
Benefits	256,429	
Refunds of contributions	1,536	
Administrative expenses	7,407	
Deductions from pooled investments		19,527,229
Total deductions	265,372	19,527,229
Changes in net assets	1,405,291	(81,085)
Net assets - beginning of year	4,103,348	2,488,328
Net assets - end of year	\$ 5,508,639	2,407,243

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(Amounts Expressed In Thousands Unless Otherwise Noted)

(1) Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies:

(A) The Financial Reporting Entity

The County of San Diego is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "Board"). The County provides a full range of general government services. As required by generally accepted accounting principles, these financial statements present the County of San Diego (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the County's operations, and the County Board of Supervisors is typically their governing body. They are reported as if they were part of the primary government, because they benefit the County exclusively. A discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. This unit is discretely presented because its Board is not substantively the same as the County's Board and it does not provide services entirely or almost entirely to the County. Management applied the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," to determine whether the following component units should be reported as blended or discretely presented component units. Additionally, management researched the requirements under GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" pertaining to legally separate, tax-exempt entities, and found that there are no legally separate, tax-exempt entities that meet the criteria of GASB 39. GASB 39 became effective for fiscal years beginning after June 15, 2003.

(B) Blended Component Units

County Service Districts – These special districts were established to provide authorized services such as road, park, lighting maintenance, fire protection or ambulance service to specific areas in the county. They are financed by ad valorem property taxes in the area benefited or by special assessments levied on specific properties. These funds are included as special revenue funds.

Flood Control District – This district was established to account for revenues and expenditures related to providing flood control in the County. It is financed primarily by ad valorem property taxes and federal grants. This fund is included as a special revenue fund.

Lighting Maintenance District – This district was established to provide street and road lighting services to specified areas of the County. Revenue sources include ad valorem taxes, benefit fees, state funding and charges to property owners. This fund is included as a special revenue fund.

Air Pollution Control District – This district was established to provide for control of air pollution from motor vehicles and other sources in order to attain health-based air quality standards. Revenue sources include license and permit fees, fines, state and federal funds, charges to property owners and vehicle registration fees. This fund is included as a special revenue fund.

San Diego County Housing Authority – This authority accounts for revenues and expenditures related to providing decent housing in a suitable environment for individuals who cannot afford standard private housing. Contracts with the U.S. Department of Housing and Urban Development provide the major funding sources. This fund is included as a special revenue fund.

Sanitation Districts – These districts are used to account for the activities of all individual sanitation districts governed by the County Board of Supervisors. They are included as enterprise funds.

San Diego County Redevelopment Agency – This agency was established to provide a method of eliminating slums and blighted areas, improving housing, expanding employment opportunities, and providing an environment for the social, economic and psychological growth, and well-being of all citizens of the County. This agency is included in the debt service and capital projects funds.

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(Amounts Expressed In Thousands Unless Otherwise Noted)

San Diego County Capital Asset Leasing Corporation (SANCAL) – This corporation was established to finance the acquisition of County buildings and equipment. It is a nonprofit corporation governed by a five-member Board of Directors, which is appointed by the County Board of Supervisors. This corporation is included in the special revenue, debt service and capital projects funds.

San Diego County Employees' Retirement Association (SDCERA) – This association is a legally separate entity reported as if it were part of the primary government, because its operations primarily benefit the County by providing pensions for retired County employees. This fund is included in the fiduciary funds.

County of San Diego In-Home Supportive Services Public Authority (IHSS) – This authority was established to serve as the employer of record for the IHSS program which provides in-home assistance to low-income aged, blind, and disabled individuals enabling them to remain safely in their own homes and avoid institutionalization. The IHSS program is state-mandated. This fund is included in the special revenue funds.

The San Diego County Tobacco Asset Securitization Corporation ("Corporation") – This is a separate legal nonprofit public benefit corporation created under the California Nonprofit Public Benefit Corporation Law. It was established to purchase tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories (see Note 5H for additional information regarding the sale by the County to the Corporation of all right, title and interest of the County to such monies). The Corporation is governed by the Board of Directors consisting of three members, two of which are employees of the County of San Diego and one independent director who is not an employee of the County.

The Tobacco Securitization Joint Powers Authority of Southern California (TSJPA) – This is a separate legal public entity created by a Joint Exercise of Powers Agreement by and between the County of San Diego and the County of Sacramento pursuant to the Government Code of the State of California. The authority's purpose is to finance a loan via the sale of bonds to the San Diego County Tobacco Asset Securitization Corporation which in turn uses the loan proceeds to purchase the County's future tobacco settlement revenues under the Purchase and Sale Agreement. The Authority is administered by the Board of Directors consisting of three members, two members which are appointed by the County of San Diego Board of Supervisors and the third member is appointed by the Sacramento County Board of Supervisors.

Separate financial statements for the individual blended component units described above may be obtained by contacting the County Chief Financial Officer/Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, Room 166, San Diego, California 92101.

(C) Discretely Presented Component Unit

First 5 Commission of San Diego (Commission) – The Commission was established by the County as a separate legal entity to administer the County's share of tobacco taxes levied by the State pursuant to Proposition 10. Its purpose is to develop, adopt, promote and implement early childhood development programs in the County. The Commission is a separate legal entity, and the County appoints a voting majority of the Commission's board. The County is able to impose its will on the Commission, due to its ability to change the appointees. The two boards (County and Commission) are not substantively the same and the Commission does not provide services entirely or almost entirely to the County, but to the citizens instead.

Separate financial statements for the discretely presented component unit listed above can be obtained by contacting the Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, Room 166, San Diego, California 92101.

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(Amounts Expressed In Thousands Unless Otherwise Noted)

(D) Government-Wide and Fund Financial Statements

The basic government-wide financial statements, consisting of the statement of net assets and the statement of activities, report information on all of the non-fiduciary activities of the primary government and its component units. Whenever possible, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds. The financial information of each major fund is shown in a separate column in the fund financial statements, with the data for all nonmajor governmental funds aggregated into one single column on the Governmental Funds Balance Sheet, and with data for all nonmajor enterprise funds aggregated into one single column on the Statement of Net Assets Proprietary Funds.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the County except those required to be accounted for in another fund. Revenues are primarily derived from taxes; licenses, permits and franchises; fines, forfeitures and penalties; use of money and property; intergovernmental revenues; charges for services; and other revenues. Expenditures are expended for functions of general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreational and cultural. They also include capital outlay, and debt service.

The Tobacco Securitization Special Revenue Fund accounts for tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. (See Note 5H for additional information regarding the sale by the County to the Corporation of all right, title and interest of the County to such monies)

The Tobacco Securitization Joint Special Revenue Fund accounts for the transactions of the San Diego County Tobacco Asset Securitization Corporation and Tobacco Securitization Joint Powers Authority, two component units, that are blended into the County's financial statements.

The County reports the following major proprietary (enterprise) fund:

The Sanitation Districts Funds are used to account for the activities of all individual sanitation districts and sewer maintenance district governed by the County Board of Supervisors. Due to the quantitative nature of the Airport and the Wastewater Management Enterprise Funds, the county has elected to not report them as major funds beginning fiscal year 2003-04. Therefore, these funds have been included in the Other Enterprise Funds column in the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(Amounts Expressed In Thousands Unless Otherwise Noted)

Additionally, the County reports the following fund types:

Internal Service Funds account for the financing of public works and communications equipment; the financing of materials and supplies (purchasing); for start up services for new and existing county service districts; for the County's uninsured risk management activities; the financing of fleet services; for facilities management activities; for the financing of information technology services; and for the financing of clothing and personal sundry items for persons institutionalized at various county facilities. Additionally, mail services are included within the facilities function, and printing and record storage services are included in the purchasing function. The goods or services provided by one County department to other County departments are on a cost reimbursement basis.

The Pension Trust Fund is under the control of the Board of Retirement. The fund accumulates employer and employee contributions and earnings from the fund's investments. Disbursements are made from the fund for retirements, disability and death benefits and refunds. This fund includes all assets of the retirement system.

The Investment Trust Fund accounts for the external portion of the County Treasurer's investment pool. This fund consists of school districts, special districts and funds held for other governments.

The Agency Funds maintain assets held in an agent capacity for other governments, organizations and individuals. These assets do not support the County's programs or services. Any portion of the Agency Funds' assets held at fiscal year end for other County funds, are reported in those funds rather than in the Agency Funds.

(E) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. For purposes of not overstating the true costs and program revenues reported for the various functions, interfund activities (e.g. interfund transfers and interfund reimbursements) have been eliminated from the government-wide statement of activities. Exceptions to the general rule are interfund services provided and used between functions, such as charges for auditing and accounting fees between the general government function and various other functions of the primary government. Elimination of these interfund activities would distort the direct costs and program revenues reported for the various functions concerned. Additionally, only the interfund transfers between governmental and business-type activities are reported in the statement of activities.

Fund equity for the proprietary funds (i.e., total net assets) is segregated into restricted and unrestricted. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. Financial Accounting Standards Board Statements issued after November 30, 1989, are not applied in reporting enterprise fund operations and business type activities.

For proprietary funds, operating activities generally relate to transactions and events reported as components of operating income in the statement of revenues, expenses, and changes in fund net assets. Operating revenues include charges for providing goods and services; operating expenses include salaries and benefits, utilities, and payments to vendors and suppliers. In addition, nonoperating activities are used for any revenues or expenses that cannot be properly classified as components of operating income. Examples of nonoperating activities include interest revenue, and gain/loss on disposal of assets.

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(Amounts Expressed In Thousands Unless Otherwise Noted)

Governmental fund types are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers this to be one year for all items except property taxes, for which the County considers the period of availability to be sixty days. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues that are accrued include property taxes, sales tax, interest, and state and federal grants and subventions. Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt which is recognized when due; (2) accumulated unpaid vacation, sick leave, and other employee benefits which are reported in the period due and payable rather than in the period earned by employees; and, (3) claims and judgments.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed.

(F) Property Taxes

Taxes are levied on July 1 each fiscal year on taxable real and personal property, which is situated in the County as of the preceding January 1 lien date. However, upon a change in ownership of property or completion of new construction, State law requires an accelerated recognition and taxation of changes in real property assessed valuation. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing locally assessed and State assessed property secured by a lien, which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are payable in two installments, due November 1 and February 1. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a ten percent penalty attaches. Property on the secured roll with unpaid delinquent taxes is declared tax-defaulted after 5:00 p.m. on June 30th. Such property may thereafter be redeemed by payment of the delinquent taxes, the ten percent delinquency penalty, a ten dollar cost, a fifteen dollar per parcel redemption fee (from which the State receives five dollars), and redemption penalty of one and one-half percent per month starting July 1 and continuing until the end of redemption collectively, the "Redemption Amount". If taxes remain unpaid after five years on the default roll, the property becomes subject to tax sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1.

As established by the Teeter Plan, the Auditor and Controller allocates to the County and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such amounts in an Agency Fund. To the extent the Agency Fund tax loss reserves are higher than required, transfers may be made to benefit the County's General Fund. The balance of the tax loss reserve as of June 30, 2004 was \$7 million, which is included in the General Fund for reporting purposes.

(G) Indirect Costs

Expenditures and expenses for functional activities include County indirect costs that are allocated to benefiting departments under the County's Fiscal Year 2003-2004 Countywide Cost Allocation Plan which was prepared in accordance with the Federal Office of Management and Budget Circular A-87.

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(H) Assets, liabilities, and net assets or equity**Cash and Investments**

Investments in County funds are stated at fair value. Securities that are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash and short-term investments in the Pension Trust Fund consist of cash and securities with fiscal agents and deposits held in a pooled account with the County and are reported at cost, which approximates fair value. Short-term investments consist of cash held in money market accounts and securities readily convertible to cash. The fair value of Pension Trust Fund real estate investments has been determined by appraisals performed by independent real estate advisors approximately every three years. Investments of the Pension Trust Fund that do not have an established market are reported at estimated fair value.

For purposes of reporting cash flows, all amounts reported as "Equity in pooled cash and investments," "Collections in transit," and "Imprest cash" are considered cash equivalents. Pooled cash and investment carrying amounts represent monies deposited in the County Treasurer's cash management pool and are similar in nature to demand deposits (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty), with original maturities of three months or less. For "Cash with fiscal agent" information see Note 4A.

Inventories

Inventories, which consist of expendable supplies, are stated at average cost. They are accounted for as expenditures at the time of purchase and reported in the balance sheet of the General Fund and the Other Governmental Funds as an asset with an offsetting reserve. Inventory held by the Road Fund, a special revenue fund, and the proprietary fund types is carried at average cost and is expended when consumed.

Capital Assets

Capital assets are defined as assets of a long-term character that are intended to be held or used in operations, such as land, buildings and improvements, equipment, and infrastructure. Infrastructure assets include roads, bridges, flood channels, street lights, signals, and sewers.

Capital assets are recorded at historical cost if purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets with an original unit cost equal to or greater than the County's capitalization threshold shown in the table below are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Structures and improvements	\$50
Infrastructure (permanent road divisions, county service areas, sanitation and special districts)	\$25
Infrastructure (all others)	\$50
Equipment	\$ 5

Depreciation is charged over the capital assets' estimated useful lives using the straight-line method for proprietary and governmental fund types. Governmental fund type depreciation is only shown in the statement of activities. Proprietary fund type depreciation is shown both in the fund statements and the statement of activities. The estimated useful lives are as follows:

Structures and improvements	50 years
Infrastructure	10-50 years
Equipment	5-20 years

Bond Issuance Costs, Premiums, Discounts and Deferred Amount On Refunding

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, as well as the deferred amount on refunding, are deferred

NOTES TO BASIC FINANCIAL STATEMENTS
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and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium, discount or deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Amounts on refunding are not deferred, but are recognized in the year of occurrence as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

Long-Term Liabilities

Long-term liabilities expected to be financed with resources from governmental and proprietary fund types are accounted for in the statement of net assets. Long-term liabilities of all proprietary fund types are also accounted for in the respective funds.

Amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of Social Security and Medicare taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation, sick leave, and compensatory time worked in the amount of approximately \$77.5 million for the governmental fund types as of June 30, 2004, is recorded in the statement of net assets. These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

Reservation of Fund Balances

In the fund statements, reserves represent those portions of fund balance not available for appropriation or legally segregated for a specific future use.

Net Assets Invested in Capital Assets, Net of Related Debt

This amount is derived by subtracting the outstanding debts incurred by the County to buy or construct capital assets shown in the statement of net assets. Capital assets cannot readily be sold and converted to cash.

Restricted of Net Assets

Restricted net assets arise when restrictions on the use of net assets are externally imposed by a creditor, (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates. Where significant estimates have been made in preparing these financial statements, they are described in the applicable footnotes.

(2) Stewardship, Compliance and Accountability

(A) Fund Deficits

The following funds have an accumulated deficit at June 30, 2004:

Capital Projects Fund:		
San Diego County Redevelopment Agency (SDCRA)	\$	5,210
Internal Service Funds:		
Risk Financing	\$	17,530
Facilities Management	\$	1,488

The deficit within the SDCRA fund is due to the construction of various capital projects including streets, utilities, sidewalks, traffic signals and other improvements. This deficit will be reduced in

NOTES TO BASIC FINANCIAL STATEMENTS
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future years upon the receipt of the incremental tax revenues. The deficit in the Risk Financing fund is due to prior years' recognition of liabilities based on actuarial studies. This year's deficit represents a reduction of \$6.4 million over that of the prior fiscal year. The County intends to reduce the deficit by continuing to focus resources on injury prevention via a Countywide education and safety training program. The County anticipates this program will reduce the growth in the liability for new injury claims, and therefore the deficit, by 5% to 10% per year. The deficit within the Facilities Management fund is due to the use of loan proceeds for expenses incurred for maintenance cost for energy conservation equipment. This deficit will be reduced as fees are collected in future years.

(3) Reconciliation of Government-Wide and Fund Financial Statements

(A) Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets

Total fund balance of the County governmental funds, \$1,294,163, differs from net assets of governmental activities, \$1,825,921 reported in the statement of net assets. The difference primarily results from the long-term economic resources measurement focus and the accrual basis of accounting in the statement of net assets versus the current financial resources measurement focus and modified accrual basis of accounting in the governmental fund balance sheets.

Balance Sheet/Statement of Net Assets					
	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassi- fications and Eliminations (3)	Statement of Net Assets Totals
ASSETS					
Cash and cash equivalents	\$ 574,356		163,518		737,874
Cash with fiscal agent	76,520				76,520
Investments	410,893				410,893
Taxes receivable, net	34,488				34,488
Internal balances				(9,106)	(9,106)
Accounts and notes receivable	341,519		2,994	41,926	386,439
Due from other funds	191,795		19,731	(211,526)	
Advances to other funds	1,068		757	(1,825)	
Inventory of materials and supplies	8,613		863		9,476
Deferred charges and other assets	2,789	28,791			31,580
Capital assets		2,581,998	98,572		2,680,570
Total assets	1,642,041	2,610,789	286,435	(180,531)	4,358,734
LIABILITIES					
Accounts payable	72,331		16,373		88,704
Accrued payroll	60,165		1,523		61,688
Accrued interest		20,929	14		20,943
Due to other funds	115,116		54,302	(169,418)	
Advances from other funds	11,113			(11,113)	
Deferred credits and other liabilities	89,153	(28,895)	43		60,301
Long-term liabilities		2,199,258	101,919		2,301,177
Total liabilities	347,878	2,191,292	174,174	(180,531)	2,532,813
FUND BALANCE/NET ASSETS					
Total fund balance/net assets	1,294,163	419,497	112,261		1,825,921
Total liabilities and fund net assets	\$ 1,642,041	2,610,789	286,435	(180,531)	4,358,734

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- (1) Costs of issuances are reported as expenditures in governmental funds and thus have the effect of reducing fund balance because current financial resources have been used. In the government-wide statements however, bond issuance costs are reported as a deferred charge and amortized over the life of the bond issue.

Net cost of issuance	\$ 28,791
Total deferred charges and other assets	\$ 28,791

When capital assets (land, buildings, equipment, infrastructure) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the County as a whole.

Cost of capital assets	\$ 3,538,279
Accumulated depreciation	(956,281)
Net capital assets	\$ 2,581,998

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Total accrued interest	\$ (20,929)
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Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.

Adjustment of deferred revenue	\$ 28,895
Total deferred credits and other liabilities	\$ 28,895

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities; including bond premiums, discounts, and the cost of refunded debt that are recognized as revenue (premiums) and expenditures in governmental funds in the year of sale. However, all liabilities, current and long-term, are reported in the statement of net assets. Bond premiums, discounts and deferred costs on refunded debt are recorded as additions (premiums) and reductions of a liability respectively and amortized over the life of the corresponding bonds. Balances at June 30, 2004 were:

Bonds, notes and loans payable	\$ (2,061,720)
Unamortized issuance Premium	(555)
Unamortized issuance Discount	9,565
Unamortized deferred amount on refunding	14,072
Capital leases	(37,346)
Arbitrage	(979)
Compensated absences	(75,385)
Landfill closure and postclosure - San Marcos Landfill	(46,910)
Total long-term liabilities	\$ (2,199,258)

- (2) Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Costs	\$ 112,261
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- (3) The government-wide financial statements are designed to minimize the duplicative effects of transactions between funds for internal activities. Therefore, due to/from and advances to/from

NOTES TO BASIC FINANCIAL STATEMENTS
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balances have been eliminated on the government-wide financial statements. The net amount due between governmental and business-type activities after the eliminations are reported as internal balances in the government-wide statement of net assets. Due to/from and advances to/from transactions between governmental funds and fiduciary funds are reclassified as receivables and payables in the government-wide statement of net assets.

(B) Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The net change in fund balances for governmental funds \$(56,745) differs from the change in net assets for governmental activities \$(362,234) reported in the statement of activities. The differences arise primarily from the long-term economic resources measurement focus and the accrual basis of accounting in the statement of activities versus the current financial resources measurement focus and modified accrual basis of accounting in the governmental funds. The effect of the differences is illustrated in the following table.

**Statement of Revenues, Expenditures, and Changes in
Fund Balances/Statement of Activities**

	Total Governmental Funds	Long-Term Revenues/ Expenses (4)	Capital- Related Items (5)	Internal Service Funds (6)	Long-term Debt Transactions (7)	Statement of Activities Totals
Revenues:						
Taxes	\$ 497,178	(261)				496,917
Licenses, permits and franchises	42,252					42,252
Fines, forfeitures and penalties	46,495					46,495
Revenue from use of money and property	25,867			157		26,024
Aid from other governmental agencies:						
State	1,201,278					1,201,278
Federal	701,057					701,057
Other	69,860					69,860
Charges for current services	277,637	121		15,535		293,293
Other revenue	65,913	(864)	31,322			96,371
Total revenues	2,927,537	(1,004)	31,322	15,692		2,973,547
Expenditures:						
Current:						
General	216,183		4,623	17,547	(3,594)	234,759
Public protection	1,216,276		12,594	1,727	(57,065)	1,173,532
Public ways and facilities	115,426		44,826	92		160,344
Health and sanitation	562,657		2,457	553	(871)	564,796
Public assistance	1,053,545		412	676	(1,722)	1,052,911
Education	31,308		230	184		31,722
Recreational and cultural	24,702		1,611	180		26,493
Capital outlay	54,958		(54,958)			
Debt service:						
Principal	69,839				(69,839)	
Interest	92,503			21	(627)	91,897
Bond issuance costs	4,095				(4,095)	
Total expenditures	3,441,492		11,795	20,980	(137,813)	3,336,454
Other financing sources (uses):						
Sale of capital assets	4,044		(4,044)			
Proceeds of long term debt	454,179				(454,179)	
Transfers (net)	(1,013)			1,686		673
Total other financing sources (uses)	457,210		(4,044)	1,686	(454,179)	673
Net change for the year	\$ (56,745)	(1,004)	15,483	(3,602)	(316,366)	(362,234)

NOTES TO BASIC FINANCIAL STATEMENTS
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Explanation of differences between governmental fund operating statements and the statement of activities:

- (4) Governmental funds accrue property tax revenue, which is deemed collectible within sixty days. However, in the statement of activities the total amount estimated to ultimately be collected is accrued.

Property taxes	\$	(261)
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Adjustment for reserve for inventory of materials and supplies.

Adjustment	\$	121
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Long-term revenues are not available as current resources, and therefore are not reported as revenue in the governmental funds.

Adjustment of deferred revenue	\$	(864)
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- (5) The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds.

Proceeds from sale of capital assets	\$	(4,044)
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The book value of the sale of capital assets is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a "loss on sale of fixed assets" recorded as an expense in the statement of activities. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which asset acquisition and donations exceeded depreciation in the current period.

Loss on Disposal of assets	\$	(21,326)
Capital outlay		91,294
Depreciation expense		(81,763)
Subtotal		(11,795)
Donated infrastructure - roads		31,322
Difference	\$	19,527

- (6) Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service fund's costs for the year.

Adjustments	\$	(3,602)
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- (7) Repayment of bond principal and other long-term obligations are reported as expenditures in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the County as a whole however, the principal and other payments for liabilities reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The County's long-term obligations include bonds, loans and notes payable, capital leases, accumulated unpaid employee leave balances, arbitrage rebate, and

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closure and postclosure costs for the San Marcos landfill. The County's long-term debt was reduced by these payments, principal payments to bondholders, and the adjustment to the San Marcos Landfill closure and postclosure liability.

Other miscellaneous debt additions- general function	\$ (1,047)
Other miscellaneous debt additions - public protection function	(1,271)
Other miscellaneous debt reductions - general function	5,807
Change in accounting estimate for closure and postclosure costs	
public Protection function - San Marcos Landfill	54,090
Principal payments made	69,839
Total repayment of long-term obligations	\$ 127,418

Bond issuance costs are expensed in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of activities.

Bond issuance costs	\$ 4,095
Amortization of bond issuance costs - general function	(2,013)
Difference	\$ 2,082

Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for bonds and notes payable and amortization of capitalized bond premiums, discounts and deferred amount of refunded debt that are expended in the governmental funds in the year paid.

Accrued interest	\$ 4,549
Amortization of bond premium	78
Amortization of bond discounts	(4,000)
Total additional interest	\$ 627

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. Bond proceeds were received from:

Pension obligation bond proceeds	\$ (454,113)
Singing hills capital loan proceeds	(66)
Total long-term debt proceeds	\$ (454,179)

Liabilities for long-term debt are not accrued in governmental funds, but rather are recognized as expenditures when due.

General function	\$ 847
Public protection function	4,246
Public assistance function	1,722
Health & sanitation function	871
Pension obligation liability	\$ 7,686

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(4) Detailed Notes on all Funds

(A) Equity in Pooled Cash and Investments, Cash, Investments, and Obligations under Reverse Repurchase Agreements

The County maintains a cash and investment pool that is available for use by the County as well as other agencies for which the County Treasury is the depository. The San Diego County Treasurer issues a separate annual financial report on the County Investment Pool. This report may be obtained by writing to the San Diego County Treasurer, Room 152, County Administration Center, 1600 Pacific Highway, San Diego, California, 92101 or by calling (619) 531-4743. Copies are also available on the internet at www.sdtreastax.com.

Each fund type's portion of this pool is displayed on the balance sheet as "Equity in pooled cash and investments." Interest earned on the pooled deposits is accrued in a pooled interest apportionment agency fund and is allocated based on the average daily cash balances of the participating funds. All participating funds share earnings and losses proportionately. State law permits interest income related to certain funds to be considered as income of the General Fund of the County. Such interest has been recorded as revenue in the General Fund.

SDCERA cash, cash equivalents and securities for swaps and futures consist of money market securities and collective short-term investments with original maturities of three months or less.

SDCERA utilizes various financial instruments, such as equity swap agreements and stock and bond futures contracts in order to synthetically create exposure to the equity and bond markets and allows SDCERA to build portfolios with performance characteristics very similar to benchmarks and to manage allocation of risk. The Board of Retirement has adopted a policy whereby cash, cash equivalents, and securities in amounts at least equal to the exposures resulting from these agreements are segregated and identified in the accounting records as "Cash, cash equivalents, and securities for domestic equity swaps and futures and cash, cash equivalents and securities for international futures". The amounts reported reflect the fair value of the swap and futures contracts, which include cash, cash equivalents, securities and any net unrealized gains and losses associated with the contracts.

These financial instruments are intended to be equivalent to the asset they are designed to emulate. SDCERA management believes such investments offer significant advantages over the direct investment in securities, including lower transaction fees and custody costs. SDCERA's use of swaps and futures is structured such that market exposure is fundamentally equivalent to the direct cash investments. SDCERA will only execute a swap agreement with counterparties rated A or higher. The use of swap agreements exposes the Pension Trust Fund to the risk of dealing with financial counterparties and their ability to meet the terms of the contracts. However, all swaps are fully collateralized by cash at least equal to the notional value of the most recent cash reset. Allowing insufficient collateral is strictly prohibited as a trading strategy by SDCERA's investment policies.

"Cash with fiscal agent" represents amounts on deposit with trustees for the, Pension Trust Fund, Teeter Commercial Paper Notes, Tobacco Securitization Special Revenue Fund, Tobacco Securitization Joint Special Revenue Fund, Other Governmental Funds and other Fiduciary Funds. Cash with various financial institutions was \$149.462 million including \$59.134 million restricted cash as required by various trust agreements entered into by the County and other cash with fiscal agents totaling \$90.328 million.

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Of the \$149.462 million, \$1.673 million was covered by federal deposit insurance, \$147.789 million was considered a collateralized custodial credit risk. Collateralized custodial credit risk is defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" as bank balances collateralized with securities held in trust by the pledging financial institution in the entity's name, (the County and San Diego Employees' Retirement Association (SDCERA), a component unit of the County). The County is also in compliance with State statutes (as referred to in GASB Statement No. 3) that require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit.

"Investments," represents the Tobacco Securitization Special Revenue Fund investments, Inactive Wastesite Fund investments, the Pension Trust Fund investments and stocks and bonds held for other agencies.

Deposit and investment reconciliation as reported in the basic financial statements are summarized as follows:

Deposits: At year-end the carrying amount of the County's demand deposits was \$34.690 million. Of the balance \$692 thousand was covered by federal deposit insurance and \$33.998 million was considered a collateralized custodial credit risk as defined above.

Investments: State statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, medium-term notes, and negotiable certificates of deposit issued by national and state licensed or chartered banks or federal or state savings and loan associations.

Pension Trust Fund investments are authorized by the County Employees' Retirement Law of 1937 (law). This law grants exclusive control to the Board of Retirement over the investment of SDCERA's investment portfolio. The Law allows for the Board to invest, or delegate the authority to invest, the investment portfolio through the purchase, holding, or sale of any form or type of investment, financial instrument or financial transaction when prudent in the informed opinion of the Board.

Pension Trust Fund Investments are reported at fair value in the Pension Trust Fund based upon closing sale prices reported on recognized securities exchanges on the last business day of the period. For listed securities having no sales reported and for unlisted securities, fair value is based upon last reported bid prices. All purchases and sales of investments are accounted for on a trade-date basis, and dividends declared but not received are accrued on the ex-dividend date. Realized and unrealized gains or losses of securities are determined on the basis of average cost.

The County's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name. There were no investments with a risk Category 3 at June 30, 2004.

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	Category		Fair Value
	1	2	
Investments categorized			
Domestic equity securities	\$ 674,524		674,524
Cash, cash equivalents, and securities for domestic equity swaps and futures	1,304,716		1,304,716
International equity securities	1,131,939		1,131,939
Cash, cash equivalents, and securities for international futures	60,222		60,222
Domestic corporate bonds	344,059		344,059
Cash for bond futures	206,426		206,426
International bonds	515,942		515,942
Asset backed securities	49,313		49,313
Repurchase agreements	200,000		200,000
Commercial paper	1,049,756		1,049,756
US government obligations	1,893,638		1,893,638
Negotiable certificates of deposit	669,739		669,739
Short term and corporate notes	223,582		223,582
Fixed income municipal securities		352,910	352,910
Cash received for investments held by broker dealers under securities lent by SDCERA:			
U.S. corporate floating rate	122,514		122,514
Asset back securities	23,544		23,544
Commercial paper	7,997		7,997
Bank notes	63,559		63,559
Certificate of deposit floating rate	60,087		60,087
Time deposits	15,009		15,009
Repurchase agreements	82,775		82,775
Subtotal	8,699,341	352,910	9,052,251
Investments not categorized			
Securities loaned by SDCERA for cash collateral:			
U.S. government and agency securities			26,430
International governments securities			1,761
Domestic corporate bonds			98,611
Domestic equities			181,845
International equities			56,950
Mutual funds (Open-ended)			34,400
Real estate equity			501,238
Guaranteed Investment Contracts			14,312
Total investments	\$		9,967,798

Reconciliation of the Statement of Net Assets to Total Investments at June 30, 2004:

	Primary Government	Fiduciary Funds	Sub-Total	Component Unit	Total
Equity in pooled cash and investments	\$ 798,164	2,833,134	3,631,298	165,229	3,796,527
Cash with fiscal agent	17,386	72,942	90,328		90,328
Restricted cash with fiscal agent	59,134		59,134		59,134
Collections in transit	9,728	20,975	30,703		30,703
Imprest cash	520	34	554		554
Investments	43,671	5,795,068	5,838,739		5,838,739
Restricted investments	367,222		367,222		367,222
Total	1,295,825	8,722,153	10,017,978	165,229	10,183,207
Less:					
Cash with fiscal agent					(90,328)
Restricted cash with fiscal agent					(59,134)
Collections in transit					(30,703)
Imprest cash					(554)
Deposits					(34,690)
Total investments	\$				9,967,798

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
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A total of \$3.8 billion of investments is reported in the Equity in pooled cash and investments fund financial statements. Fair values and estimates of fair values are provided monthly by an independent pricing agency and such values are not supported by any guarantees on the part of the pool sponsor or the pricing agency. The County and certain school districts are mandated by state statutes to participate in the County Treasurer's investment pool and represent 97 percent of the total pooled cash and investments on hand at June 30, 2004.

Securities Lending Transactions: Under the provisions of State statutes, the County Treasurer lends U.S. government obligations and SDCERA lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The County's custodial bank manages the securities lending programs for the County Treasurer and receives cash and securities as collateral pledged at 102 percent of the market value of securities lent. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Collateral cash is pledged at 102% and 105% of the fair value of domestic securities and non-domestic securities lent, respectively. Additional collateral has to be provided the next business day if its value falls to 100 percent or less of the market value of the securities lent. The collateral securities cannot be pledged or sold by the County Treasurer or SDCERA unless the borrower defaults. No more than 20 percent of the Treasurer's pooled investment portfolio may be lent at one time. There are no restrictions on the amount of SDCERA securities that can be lent at one time. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk and represent transactions of the SDCERA pension trust fund. At year-end, the pension trust fund has no credit risk exposure to borrowers because the amounts SDCERA owes the borrowers exceeds the amounts the borrowers owe SDCERA. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the cash collateral.

SDCERA's securities lending transactions as of June 30, 2004, are summarized in the following table. The Pension Trust Fund lent \$385 million in securities and received collateral of \$20 million and \$375 million in securities and cash, respectively, from borrowers.

	SDCERA Securities Lent	Securities Received Value	Cash Received Value
Securities Lent			
Lent for cash collateral:			
U.S. government and agency securities	\$ 26,430		26,858
International governments securities	1,761		1,795
Domestic corporate fixed income securities	98,611		101,099
Domestic equities	181,845		185,850
International equities	56,950		59,883
Lent for securities collateral:			
International equities	5,378	5,905	
U.S. government securities	1,042	1,065	
International governments securities	12,953	13,228	
Total	\$ 384,970	20,198	375,485

SDCERA does not have the ability to pledge or sell collateral securities without a borrower default. At the end of the fiscal year, SDCERA has no credit risk exposure to borrowers because the amounts the system owes them exceed the amounts they owe the system. As with other extensions of credit, SDCERA may bear the risk of delay in recovery or of rights in the collateral should the borrower of the securities fail financially. In addition, the Bank of New York indemnifies SDCERA against all borrower default.

NOTES TO BASIC FINANCIAL STATEMENTS
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(B) Restricted AssetsCash With Fiscal Agent

Restricted Cash with fiscal agent represents cash held in custodial accounts restricted for debt service in accordance with the provisions of bond indentures.

Investments

Restricted Investments consist of investments in the Tobacco Securitization Special Revenue Fund. The investments in the Tobacco Securitization Special Revenue Fund will be used over time to fund new and existing programs that would promote healthy lifestyles. The emphasis is on prevention and education, and is intended to reduce the abuse of alcohol, tobacco and other addictive substances, improve mental health services, significantly reduce violence and abuse, reduce the incidence of chronic and infectious diseases, and provide education regarding the effects of tobacco.

(C) Capital Assets**Primary Government**

Capital asset activity for the year ended June 30, 2004 was as follows:

Governmental Activities:

	Beginning Balance at July 1, 2003	Increases	Decreases	Ending Balance at June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 265,956	20,470	(24,316)	262,110
Construction and contracts in progress	177,693	36,833	(39,440)	175,086
Total capital assets, not being depreciated	443,649	57,303	(63,756)	437,196
Capital assets, being depreciated:				
Buildings and improvements	931,422	38,919	(364)	969,977
Equipment	163,892	12,872	(8,788)	167,976
Road network	2,012,432	61,989		2,074,421
Bridge network	38,425	768		39,193
Total capital assets, being depreciated	3,146,171	114,548	(9,152)	3,251,567
Less accumulated depreciation for:				
Buildings and improvements	(262,782)	(17,868)	39	(280,611)
Equipment	(81,285)	(14,951)	7,436	(88,800)
Road network	(569,057)	(58,080)		(627,137)
Bridge network	(10,912)	(733)		(11,645)
Total accumulated depreciation	(924,036)	(91,632)	7,475	(1,008,193)
Total capital assets, being depreciated, net	2,222,135	22,916	(1,677)	2,243,374
Governmental activities capital assets, net	\$ 2,665,784	80,219	(65,433)	2,680,570

Building and infrastructure projects are recorded as construction in progress until completion. Intangible projects such as software acquisition and implementation are recorded as contracts in progress until implementation is completed.

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
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Depreciation expense was charged to functions of the primary government as follows:

General government	\$ 4,020
Public protection	14,384
Public ways and facilities	59,157
Health and sanitation	2,380
Public assistance	369
Education	197
Recreational and cultural	1,256
Internal service funds	9,869
Total depreciation expense – governmental activities	\$ 91,632

Business Type Activities:

Enterprise Funds	Beginning Balance at July 1, 2003	Increases	Decreases	Ending Balance at June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 7,490	3,187		10,677
Construction and contracts in progress	13,817	8,392	(6,693)	15,516
Total capital assets, not being depreciated	21,307	11,579	(6,693)	26,193
Capital assets, being depreciated:				
Buildings and improvements	30,598	6,693		37,291
Equipment	1,203	11		1,214
Sewer network	63,063	683		63,746
Total capital assets, being depreciated	94,864	7,387		102,251
Less accumulated depreciation for:				
Buildings and improvements	(18,830)	(797)		(19,627)
Equipment	(782)	(66)		(848)
Sewer network	(24,803)	(1,262)	34	(26,031)
Total accumulated depreciation	(44,415)	(2,125)	34	(46,506)
Total capital assets, being depreciated, net	50,449	5,262	34	55,745
Enterprise fund capital assets, net	\$ 71,756	16,841	(6,659)	81,938

(D) Leases

(1) Lease Revenue

The County leases real property to the private sector and other governmental agencies. The lease revenues for both non-cancelable and cancelable leases for the year ended June 30, 2004 were approximately \$15 million. One lease extends through 2091 for a two acre parcel leased to a non-profit public benefit corporation. The future minimum lease revenue from the non-cancelable leases is as follows:

Fiscal Year	Minimum Lease Revenue
2004-2005	\$ 10,811
2005-2006	10,456
2006-2007	9,752
2007-2008	9,270
2008-2009	9,038
2009-2091	155,019
Total	\$ 204,346

NOTES TO BASIC FINANCIAL STATEMENTS
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(2) Lease Commitments

The County has commitments under long-term property operating lease agreements for facilities used for operations through fiscal year 2012. These leases do not meet the criteria for capitalization under FASB Statement 13. The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County facilities. The combined rental cost for which the County is obligated under these leases is as follows:

Fiscal Year	Minimum Lease Payments
2005	\$ 9,801
2006	8,338
2007	7,085
2008	3,553
2009	2,975
2010-2012	5,811
Total	\$ 37,563

Total rental expense for all real property operating leases, including short-term cancelable leases for the year ended June 30, 2004, was approximately \$26.2 million.

In addition to real property leases, the County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2004, was \$7.4 million.

Certain buildings and equipment are being leased under capital leases as defined in FASB Statement 13. The present value of the minimum lease obligation has been capitalized in the statement of net assets and is reflected as a liability in that statement. The County assumes responsibility for all maintenance, repair, and structural modifications under the terms of the lease agreements.

Future minimum lease payments under capital leases consisted of the following at June 30, 2004:

Fiscal Year	Minimum Lease Payments
2005	4,462
2006	4,348
2007	3,785
2008	3,454
2009	3,068
2010-2014	15,323
2015-2019	15,290
2020-2023	3,060
Total minimum lease payments	52,790
Less: amount representing interest	(15,444)
Net lease payments	\$ 37,346

NOTES TO BASIC FINANCIAL STATEMENTS
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The book value of capital lease property at June 30, 2004 consisted of the following:

Capital Lease Property	Net Book Value June 30, 2004
Land	\$ 2,221
Buildings and Improvements	36,729
Total	\$ 38,950

(E) Short-Term Obligations

The County's short-term borrowing program consists of its annual Tax and Revenue Anticipation Notes (Notes), which fund the County's annual operating cash flow needs, and the issuance of Teeter Commercial Paper, which fund payments to public agencies their full share of property taxes levied. The County bears the risk of loss on delinquent property taxes that go unpaid; however, it also benefits from the penalties associated with these delinquent property taxes when they are paid. Short-term borrowing activity during the year ended June 30, 2004 was as follows:

	Beginning Balance at July 1, 2003	Issued	Redeemed	Ending Balance at June 30, 2004
Tax and Revenue Anticipation Notes	\$135,000	255,000	390,000	
Teeter B-1 Tax - Exempt Principal	39,200	34,100	24,200	49,100
Teeter B-2 Taxable Principal	22,536	12,001	22,536	12,001
Total Teeter	\$ 61,736	46,101	46,736	61,101

On July 3, 2003, the County of San Diego issued \$255 million of Notes with an interest and principal maturity date of June 30, 2004. The Notes carry an interest rate of 1.75% and a yield of 0.90%.

In 1995 the County of San Diego Board of Supervisors approved the Master Teeter Resolution providing the terms and conditions of its teeter plan obligations. Pursuant to this resolution, the County is able to issue additional Series B Teeter Commercial Paper each fiscal year. On May 18, 2004, the Board of Supervisors adopted a resolution for the additional Series B borrowings to finance the uncollected property taxes and assessments attributable to the fiscal year ended June 30, 2004. The Teeter commercial paper shall mature not more than 270 days after date of issuance and is not subject to redemption prior to maturity. The payment of principal and interest on each series is supported by an irrevocable direct pay letter of credit that will expire on June 22, 2007.

(F) General Long-Term Obligations

Outstanding general long-term obligations at June 30, 2004 consist of certificates of participation, capital lease obligations, third party financing leases, and other long-term obligations. All obligations listed carry a fixed interest rate. The range listed in the table below represents the interest rate on the serial, term bonds or in the case of third party financing leases it is the range of rates for the various leases. A component of the 2002 Taxable Pension Obligation Bonds, Series B1, and the 2004 Taxable Pension Obligation Bonds, Series B, carry variable interest rates and are subject to market fluctuations. The variable interest rate used for the 2002 Series B1 was 1.129% at June 30, 2004. The assumed variable rate used in the 2004 Taxable Pension Obligation Bonds is 1.369% which represents the one month London Interbank Offered Rate (LIBOR) at June 30, 2004. The maximum interest rate on these bonds shall not exceed 17% per annum. Outstanding long-term obligations at June 30, 2004 were as follows:

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(1) Governmental Activities

General Long-Term Obligations

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1993 Certificates of participation issued May, 1993	2.50 - 5.625%	2012	\$ 203,400	86,725
1996 Certificates of participation issued May, 1996	4.30 - 5.50%	2018	52,230	33,740
1996 Certificates of participation issued December, 1996	4.00 - 6.00%	2019	37,690	31,910
1997 Certificates of participation issued July, 1997	4.00 - 5.42%	2025	80,675	69,755
1998 Certificates of participation issued January, 1999	4.00 - 4.94%	2022	73,115	57,730
1999 Certificates of participation issued September, 1999	3.60 - 4.75%	2009	15,010	9,750
2000 Certificates of participation issued May, 2000	4.50 - 5.125%	2010	51,620	33,985
2002 Certificates of participation issued March 2002	2.00 - 5.00%	2011	26,060	20,770
Total certificates of participation			539,800	344,365
Capitalized Leases:				
San Diego Regional Building Authority Lease beginning September 2001	2.15 - 5.25%	2019	36,960	33,960
Third party financing leases with various beginning dates from August, 1997 to the present	4.24 - 8.00%	2004 - 2014	8,705	3,386
Total capitalized leases			45,665	37,346
Other long-term obligations:				
Capital loans:				
United States Department of Agriculture	1.00%	2028	4,486	3,483
California Bank & Trust	7.75 - 8.75%	2007-2008	502	289
California Energy Commission	4.00%	2014	1,978	1,978
Taxable Pension Obligation Bonds:				
1994 Series A	4.7 - 6.6%	2007	430,430	77,425
2002 Series A, B & C	3.88 - 6.125%	2032	737,340	737,340
2004 Series A, B & C	3.28 - 5.86%	2024	454,113	454,113
Redevelopment Agency Revenue Bonds	4.75 - 6.75%	2020	5,100	4,400
San Diego County Tobacco Asset Securitization Corporation	4.00 - 6.00%	2043	466,840	440,305
Unamortized issuance premium			765	555
Unamortized issuance discount			(11,244)	(9,565)
Unamortized deferred amount on refunding			(21,108)	(14,072)
Arbitrage rebate				979
Compensated absences				77,537
Claims and judgments				97,789
Landfill closure and postclosure				46,910
Total other long-term obligations			2,069,202	1,919,466
Total governmental activities			\$ 2,654,667	2,301,177

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The certificates of participation (COPs) of the SANCAL non-profit corporation are secured by annual base rental lease payments payable primarily by the County General Fund for use of the facilities constructed or equipment purchased from the proceeds. There are also encumbrances on the facilities constructed or purchased with the proceeds of the SANCAL. The capital leases between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and long-term obligation (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

Also, the County, in compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, has performed arbitrage rebate calculations to determine probable amounts due to the Federal government. An estimate of the probable arbitrage rebate in the amount of \$979 thousand has been included in the statement of net assets.

(2) Business-Type Activities

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
Sanitation Districts				
Long-term contract payable - Spring Valley			\$ 5,639	195
Other enterprise funds				
Capital loan:				
Department of Transportation loan				
Beginning March 2001	5.63%	2019	3,584	2,998
Compensated absences				345
Total business-type activities			\$ 9,223	3,538

In previous fiscal years, this capital loan was treated as a debt of the government-wide governmental activities statement of net assets, and the debt service payments were made from the Special Aviation Debt Service Fund. In fiscal year 2003-2004, this debt was determined to be a debt of the Airport Enterprise Fund (a non-major business-type activities fund), and is included in the table above as part of the Other enterprise funds. The debt service payments are now accounted for in the Airport Enterprise Fund.

(3) Long-term obligation activity for the year ended June 30, 2004 was as follows:

The following liabilities presented in the governmental activities table below, have been liquidated in prior years in the following governmental funds:

<u>Liability</u>	<u>Fund(s) Used to Liquidate in Prior Years</u>
Arbitrage rebate	Debt Service Fund - Nonprofit Corporation
Claims and judgments	Internal Service Fund - Risk Financing
Compensated absences	General Fund; Special Revenue Funds - County Library, Road, Cable TV, Air Pollution; Internal Service Funds - Facilities Management, Fleet Services, Purchasing, Mail Print & Records
Landfill closure and postclosure	General Fund, Inactive Wastesites Fund

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Governmental Activities

Obligation	Beginning Balance at July 1, 2003	Additions	Reductions	Ending Balance at June 30, 2004	Amounts Due within One Year
Bonds and notes payable:					
Certificates of participation	\$ 395,285		(50,920)	344,365	33,855
Redevelopment Agency	4,530		(130)	4,400	140
San Diego County Tobacco Securitization Corporation	449,235		(8,930)	440,305	2,155
Taxable pension obligation bonds	824,395	454,113	(9,630)	1,268,878	16,635
Capital and retrofit loans	7,088	2,044 *	(3,382)	5,750	345
Total bonds and notes payable, before issuance discount and premiums and deferred amount on refunding	1,680,533	456,157	(72,992)	2,063,698	53,130
Unamortized issuance premium, discount and deferred amount on refunding:					
Unamortized issuance premium	633		(78)	555	78
Unamortized issuance discount	(10,047)		482	(9,565)	(401)
Unamortized deferred amount on refunding	(17,590)		3,518	(14,072)	(3,518)
Total bonds and notes payable	1,653,529	456,157	(69,070)	2,040,616	49,289
Other liabilities:					
Capitalized leases	40,860	86 *	(3,600)	37,346	2,732
Arbitrage rebate	752	227		979	951
Claims and judgments	100,588	26,297	(29,096)	97,789	31,168
Compensated absences	75,370	2,409	(242)	77,537	7,754
Landfill closure and postclosure	101,000		(54,090)	46,910	17,925
Total other liabilities	318,570	29,019	(87,028)	260,561	60,530
Total governmental activities	\$ 1,972,099	485,176	(156,098)	2,301,177	109,819

*This includes loan proceeds recorded in Internal Service Funds.

Business-Type Activities

Obligation	Beginning Balance at July 1, 2003	Additions	Reductions	Ending Balance at June 30, 2004	Amounts Due within One Year
Sanitation Districts					
Spring Valley sanitation	\$ 195			195	
Other Enterprise Funds					
Capital loan		3,153	(155)	2,998	167
Compensated absences	299	46 *		345	34
Total business-type activities	\$ 494	3,199	(155)	3,538	201

*Changes in compensated absences represent the net changes for fiscal year 2003-2004.

The following is a schedule of debt service requirements to maturity, for long-term bond and note obligations outstanding at June 30, 2004.

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Governmental Activities

Fiscal Year Ending June 30	Principal	Interest	Total
2005	\$ 53,130	65,728	118,858
2006	59,037	85,190	144,227
2007	72,257	73,402	145,659
2008	57,195	70,057	127,252
2009	55,441	67,352	122,793
2010-2014	239,873	327,559	567,432
2015-2019	281,087	270,498	551,585
2020-2024	413,057	191,681	604,738
2025-2029	299,161	145,515	444,676
2030-2034	266,855	106,902	373,757
2035-2039	96,035	66,001	162,036
2040-2043	170,570	31,312	201,882
Subtotal	2,063,698	1,501,197	3,564,895
Add:			
Unamortized issuance Premium	555		
Less:			
Unamortized issuance discount	(9,565)		
Unamortized deferred amount on refunding	(14,072)		
Total	\$ 2,040,616		

The above table does not reflect the County's exposure to the interest rate swap on the 2002 Taxable Pension Obligation Bonds. See Interest Rate Swap disclosure below for further information.

Business-Type Activities

Fiscal Year Ending June 30	Principal	Interest	Total
2005	\$ 167	169	336
2006	180	159	339
2007	192	149	341
2008	205	138	343
2009	217	127	344
2010-2014	1,271	437	1,708
2015-2017	766	80	846
Total	\$ 2,998	1,259	4,257

Interest Rate SwapObjective of the Interest Rate Swap:

In order to manage interest rate risk and lower the County's borrowing cost in its 2002 Taxable Pension Obligation Bonds, the County entered into an interest rate swap on September 17, 2002 with two counterparties. The swap converts the variable interest rates on several subseries of the 2002 Taxable Pension Obligation Bonds to a single long-term fixed rate that was lower than the "natural" fixed rate available at the time of the swap. The interest rate swap with Citibank N.A. (Citibank) and Morgan Stanley Capital Services (Morgan Stanley), (together the "counterparties") is governed by the International Swaps and Derivatives Association, Inc. Master Agreement (the Agreement) and a

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Confirmation. In fiscal year 2002-2003, the County issued \$737.340 million of Pension Obligation Bonds of which \$505.125 million of the Series B Bonds are Auction Rate Securities. Within the Series B Auction Rate Securities there are the following subseries: \$100 million of Series B-1, \$135.025 million of Series B-2, \$135.05 million Series of B-3 and \$135.05 million of Series B-4 bonds. The County swapped Series B-2, B-3 and B-4 totaling \$405.125 million of the Auction Rate Securities for a contractually agreed fixed interest rate of 5.30%. Of the \$405.125 million our exposure with Citibank is \$263 million and our exposure with Morgan Stanley is \$142 million notional.

Terms:

County payments are due to bondholders semi-annually on August 15 and February 15, beginning February 15, 2003. The effective date of the swap was September 17, 2002 and the initial six-month calculation period began February 15, 2003. The Agreement and the Confirmation terminate on February 15, 2031 and the series B-2, B-3 and B-4 bonds mature on August 15, 2030. The County did not receive any upfront payments but pursuant to the terms of the Agreement, each August 15 and February 15 the County will receive an amount from each of the counterparties based on the notional amount of principal outstanding for the past six months at an interest rate of one month London Interbank Offered Rate (LIBOR) and each February 15 the County will pay the counterparties the scheduled 5.30% of the notional amount outstanding. The February 15 payment due from the counterparties will be netted against the 5.30% County payment. The notional amount of the swap will begin to decline in fiscal year 2016-2017 in direct proportion to the repayment of the bonds.

The obligations of the County to make payments to the counterparties under this Agreement constitute general obligations of the County, payable from taxes, income, revenue cash receipts and other moneys of the County legally available therefore in the General Fund. The payments due to the counterparties and the obligations of the County under this Agreement do not constitute any kind of indebtedness of the County as defined under and/or proscribed by any constitution, charter, law, rule, regulation, government code, constituent or governing instrument, resolution, guideline, ordinance, order, writ, judgment decree, or ruling.

As of June 30, 2004, the swap created a synthetic fixed rate for the bonds as follows:

Interest Rate Swap:	Terms	Rates
Fixed Rate to Counterparty	Fixed	5.30%
Average Variable Rate from Counterparty (July 1, 2003 to June, 30, 2004)	1 month LIBOR	(1.122)%
Net Interest Rate Swap Payments		4.178%
Average Auction Rate bond coupon payments (July 1, 2003 to June, 30, 2004)		1.129%
Synthetic Interest Rate on Bonds		5.307%

Fair Value:

As of June 30, 2004 the swaps had a positive fair value of \$8.5 million. The mid-market or indicative unwind valuation was derived from a proprietary model using the zero coupon method. This model takes into consideration estimates about relevant present and future market consideration as well as the size and liquidity of the position and any related actual or potential hedging transaction.

The primary risks associated with this transaction are: Credit Risk, Termination Risk, and Basis Risk.

Credit risk:

The swap's fair value represented the County's credit exposure to the counterparties as of June 30, 2004. Should the counterparties to this transaction fail to perform according to the terms of the swap contract as of June 30, 2004, the County would be exposed to a possible loss equivalent to the swap's \$8.5 million fair value. Citibank is rated Aa1/AA/AA+ by Moody's, Standard & Poors and Fitch, respectively and Morgan Stanley is rated Aa3/A+/AA- by Moody's, Standard & Poor's and Fitch, respectively. Pursuant to the Agreement if the rating issued by Standard & Poors or Moody's of the senior unsecured debt obligations of the counterparties is suspended or withdrawn or falls below "A-"

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in the case of Standard & Poors or below "A3" in the case of Moody's, collateral is to be delivered to a third party.

Termination risk:

The Agreement includes standard termination events such as failure to pay, bankruptcy and early termination. For this transaction, the swap and bond maturities match and carries an Interest Rate Swap Insurance Policy by MBIA Insurance Corporation (MBIA). If the Agreement is terminated for any of the conditions in the agreement, and at the time of the termination the swap has a negative fair value, the County would be liable to the counterparties for a payment equal to the swap's fair value. The swap can be terminated by the County for market value at any time. As of June 30, 2004 the fair value of the swap is a positive \$8.5 million. Value is predominantly tied to changes in the market for the fixed swap rate for the remaining swap term.

Basis risk:

The County's exposure to basis risk arises when the one-month LIBOR rate index received from the counterparties may be less than the applicable auction rate that is being paid to the bondholders, that is the cash flow being received by the counterparty is not equal to the cash flow being paid to the variable rate bondholder. By using one month LIBOR, the County's objective is to mitigate the affect of the differential between the swap index and the bondholder variable rate. For fiscal year 2003-2004, the differential was \$65 thousand.

Fiscal Year Ending June 30	Principal	Interest (1.129%)	Interest Rates Swaps, Net (4.178%)	Total
2005		4,574	16,926	21,500
2006		4,574	16,926	21,500
2007		4,574	16,926	21,500
2008		4,574	16,926	21,500
2009		4,574	16,926	21,500
2010-2014		22,870	84,630	107,500
2015-2019	\$ 58,025	21,911	81,084	161,020
2020-2024	121,125	16,328	60,423	197,876
2025-2029	160,275	8,435	31,215	199,925
2030-2033	65,700	685	2,538	68,923
Total	\$ 405,125	93,099	344,520	842,744

Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds, certificates of participation (COPs) or taxable pension obligation bonds by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the liability for the defeased obligations are not included in the County's financial statements. At June 30, 2004, \$178 million of bonds or COPs outstanding are considered defeased.

Landfill Site Closure and Postclosure Care Costs

State laws and regulations require the placement of final covers on all landfill sites that stopped accepting solid waste after October 9, 1991 and the performance of certain maintenance and monitoring functions at these sites for a minimum of 30 years after closure. Closure and postclosure care costs are paid near or after the date a landfill stops accepting waste. The San Marcos Landfill is the sole waste disposal site owned by the County that is subject to these regulations. It was operational and accepted solid waste from 1979 until March 11, 1997. The formal closure of this

NOTES TO BASIC FINANCIAL STATEMENTS
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landfill is expected to span from July 2004 through December 2006. Once closure is complete, post closure maintenance will begin.

The County is required by GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", to report the projected closure and postclosure care costs as of each balance sheet date. The projected landfill closure and postclosure care liability at June 30, 2004 for the San Marcos Landfill was \$46.91 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2004 dollars and is subject to change as a result of such factors including but not limited to: inflation; deflation; advancements in technology; and amendments to laws and regulations.

The basis for the foregoing projection differs from the County's projected liability of \$101 million at June 30, 2003, which included estimated maintenance costs applicable to waste and burn sites that stopped accepting solid waste prior to 1985 (pre-1985 inactive sites) and is reported as a change in accounting estimate. Accordingly, the government-wide statement of activities, public protection function expense reflects a reduction of \$54.09 million.

In addition to the above, state regulations require that landfill closure and postclosure maintenance costs be fully funded at the time of closure, unless a landfill owner/operator can demonstrate financial responsibility towards these activities by using other approved financial assurance alternatives. A pledge of revenue is one of various alternatives allowed to fund estimated postclosure costs. Under this alternative, the Board of Supervisors, on February 3, 1998, approved Minute Order No. 5 "Postclosure Maintenance Funding for the San Marcos Landfill", wherein the County entered into a pledge of revenue agreement with the California Integrated Waste Management Board (CIWMB). Pursuant to Resolution No. 98-24, adopted under Minute Order No. 5, the Board exacted that the amount of pledged revenue shall be equal to \$790 thousand per year for the 30 year period of postclosure maintenance commencing upon completion of the final closure of the San Marcos Landfill. The pledged amount is a promise of existing funds rather than future revenues and may increase or decrease to match any adjustment to identified cost estimates that are mutually agreed to by the County and the CIWMB.

As of June 30, 2004, \$23.17 million of the Net Assets of the Government-Wide Statement of Net Assets has been restricted for closure costs of the San Marcos Landfill. Based on environmental site assessments and information currently available, County management believes it also has sufficient reserves available to fund costs associated with the previously discussed pre-1985 inactive sites.

Regulations governing solid waste management are promulgated by government agencies on the federal and state levels. These regulations address the design, construction, operation, maintenance, closure and postclosure maintenance of various types of facilities; acceptable and prohibited waste types; and inspection, permitting, environmental monitoring and solid waste recycling requirements. Regulations at both the state and federal levels could impose retroactive liability, particularly with respect to cleanup activities relating to any landfill site ever operated by the County, whether or not owned by the County. Thus, the County has potential liability with respect to every landfill ever owned, operated, contracted to be operated, or into which the County disposed waste. Compliance with these regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs could increase.

(G) Special Assessment Debt

The County Treasurer-Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated for to pay any special assessment bonds. Special assessment debt is solely the obligation of various separate governmental agencies. The amount of the 4-S Ranch special assessment debt outstanding for which the County is a fiduciary is \$15.2 million at June 30, 2004.

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(H) Receivables and Payables

(1) Receivables, net at June 30, 2004, were as follows:

Receivables	Accounts	Interest	Due From Other Gov't Agencies	Notes	Loans	Other *	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:									
General Fund	\$ 1,202		196,200		21,301	38,994	257,697	(41)	257,656
Tobacco Securitization Special Revenue Fund		902				6	908		908
Tobacco Securitization Joint Special Revenue Fund		392					392		392
Other governmental funds	39,297	103	81,163	1,000		1,432	122,995		122,995
Internal service funds	417		2,577			1,494	4,488		4,488
Total governmental activities	40,916	1,397	279,940	1,000	21,301	41,926	386,480	(41)	386,439
Business-type activities:									
Sanitation Districts			15			270	285		285
Other Enterprise Funds	420		677			5	1,102		1,102
Total business-type activities	420		692			275	1,387		1,387
Component Unit:									
First 5 Commission		630	6,848				7,478		7,478
Total component unit	\$	630	6,848				7,478		7,478

* Represents reclassifications of amounts due from fiduciary funds at government-wide level.

(2) Payables at June 30, 2004, were as follows:

Payables	Vendors	Due to Other Gov't Agencies	Other	Total Payables
Governmental Activities:				
General Fund	\$ 42,478	14,717	105	57,300
Other governmental funds	9,433	1,254	4,344	15,031
Internal service funds	14,427	213	1,733	16,373
Total governmental activities	66,338	16,184	6,182	88,704
Business-type activities:				
Sanitation Districts	695			695
Other Enterprise Funds	343			343
Total business-type activities	1,038			1,038
Component Unit:				
First 5 Commission	3,211			3,211
Total component unit	\$ 3,211			3,211

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(I) Interfund Receivables, Payables and Transfers

(1) Transfers in/transfers out at June 30, 2004 were as follows:

From	To	Amount
General Fund	Nonmajor Governmental Funds	\$ 156,510
	Internal Service Funds	5,525
Total General Fund		162,035
Tobacco Securitization Special Revenue Fund	General Fund	24,083
Nonmajor Governmental Funds	General Fund	458,372
	Nonmajor Governmental Funds	132,666
	Nonmajor Enterprise Funds	24
Total Nonmajor Governmental Funds		591,062
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	530
	Internal Service Funds	167
Total Nonmajor Enterprise Funds		697
Internal Service Funds	General Fund	878
	Nonmajor Governmental Funds	3,128
	Internal Service Funds	2,649
Total Internal Service Funds		6,655
Total		\$ 784,532

The purpose of these transfers was primarily for reimbursement of project costs, lease payments, initiation fees and replacement costs.

(2) Advances to/from at June 30, 2004 were as follows:

	Advances To Other Funds	Advances From Other Funds
General Fund	\$ 948	
Nonmajor Governmental Funds	120	11,113
Sanitation	135	259
Nonmajor Enterprise Funds	9,412	
Internal Service Funds	757	
Total	\$ 11,372	11,372

The purpose of these advances was primarily for the establishment of loans that are not due within one year. These loans are for the planning, undertaking, construction or operation of redevelopment projects within the County. These advances to/from other funds have been eliminated in the government-wide financial statements, except for "internal balances" that are reflected between the governmental and business-type statements as of June 30, 2004.

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(3) Due to/due- from other funds at June 30, 2004 were as follows:

Receivable Fund	Payable Fund	Amount
General fund	Tobacco Securitization Special Revenue Fund	\$ 7,336
	Nonmajor Governmental Funds	79,018
	Sanitation Districts	13
	Nonmajor Enterprise Funds	46
	Internal Service Funds	51,730
	Fiduciary Funds	40,178
Total General Fund		178,321
Tobacco Securitization Special Revenue Fund	Fiduciary Funds	6
Nonmajor Governmental Funds	General Fund	6,872
	Nonmajor Governmental Funds	2,001
	Sanitation Districts	204
	Nonmajor Enterprise Funds	1,118
	Internal Service Funds	707
	Fiduciary Funds	2,566
Total Nonmajor Governmental Funds		13,468
Sanitation Districts	Fiduciary Funds	280
Nonmajor Enterprise Funds	General Fund	188
	Nonmajor Governmental Funds	116
	Sanitation Districts	1,198
	Internal Service Funds	6
	Fiduciary Funds	29
Total Nonmajor Enterprise Funds		1,537
Internal Service Funds	General Fund	16,007
	Nonmajor Governmental Funds	1,177
	Sanitation Districts	47
	Nonmajor Enterprise Funds	66
	Internal Service Funds	603
	Fiduciary Funds	1,831
Total Internal Service Funds		19,731
Fiduciary Funds	General Fund	1,677
	Nonmajor Governmental Funds	724
	Nonmajor Enterprise Funds	33
	Internal Service Funds	255
	Fiduciary Funds	26,159
Total Fiduciary Funds		28,848
Total		\$ 242,191

Due to/due from other funds shown in the table above arise due to the exchange of goods or services between funds that were pending the transfer of cash as of June 30, 2004. These due to/from other funds have been eliminated in the government-wide financial statements, except for "internal balances" that are reflected between the governmental and business-type statements as of June 30, 2004.

(J) Restatement of Beginning Net Assets Balance

Component Unit

The beginning net asset balance of the First 5 Commission was restated due to a \$660 thousand liability that was not recorded in the prior year.

Net Asset balance as of June 30, 2003	\$	158,228
Adjustment for restatement		(660)
Net Asset balance, restated June 30, 2003	\$	<u>157,568</u>

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(5) Other Note Disclosures

(A) Commitments and Contingencies

(1) Litigation

In addition to the accrued liability for litigation and workers compensation claims described in Note 5B, the County has a potential liability of \$25.3 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above include estimates of claims incurred but not reported at June 30, 2004.

(2) Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately \$128.7 million in sick leave. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation have been recorded as current or long-term liabilities in the appropriate proprietary funds and the statement of net assets as described in Note 1G.

(3) Third Party Debt

The tax code allows for certain types of nongovernmental borrowers to take advantage of tax-exempt financing through a governmental agency. The County of San Diego as a governmental agency, has issued tax-exempt debt on behalf of qualified borrowers. The County of San Diego is not responsible for the repayment of the debt. Accordingly, no liability for these bonds have been recorded in the statement of net assets.

Mortgage Revenue Bonds

Mortgage Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between 1995 and 2002, the County issued \$14 million of Mortgage Revenue Bonds of which \$13 million were still outstanding as of June 30, 2004.

Certificates of Participation

The County has implemented a conduit program whereby the County is the issuer of tax-exempt bonds and loans, where the proceeds are provided to a qualifying for profit or nonprofit organization. The original amounts of Certificates of Participation issued as well as the amounts outstanding per issue at June 30, 2004 are as follows:

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Certificates of Participation	Date Issued	Original Amount Issued	Amount Outstanding at June 30, 2004
Sharp Hospital	April 1998	\$ 112,020	104,075
San Diego Natural History Museum	December 1998	15,000	14,100
Burnham Institute	September 1999	51,500	44,500
San Diego Museum of Art (principal due at maturity)	March 2000	6,000	6,000
Salk Institute	April 2000	15,000	14,545
University of San Diego	May 2001	36,870	35,710
San Diego-Imperial Counties Developmental Services	September 2002	10,750	10,500
Chabad Jewish Academy (principal due at maturity)	January 2003	11,700	11,700
San Diego Jewish Academy (principal due at maturity)	December 2003	13,325	13,325
Total		\$ 272,165	254,455

Reassessment District Improvement Bonds

Reassessment District Improvement Bonds were issued to provide refunding an earlier issuance of improvement bonds for the 4-S Ranch assessment district. The District originally issued \$28.8 million of Improvement Bonds in July 1991 to finance the acquisition of certain infrastructure improvements specially benefiting properties within an assessment district. In July 1997, the District issued \$21.8 million of Reassessment Bonds to refund the original issuance, of which \$15.2 million were still outstanding as of June 30, 2004.

(4) Federal and State Programs

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

(5) SDCERA

SDCERA is party to financial instruments with off-balance sheet risk to generate earnings and stabilize excess earnings from active management of fixed income securities and common stocks. Managed futures contracts include, but are not limited to, contracts for delayed delivery of securities, commodities, or currencies in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counterparties to meet the terms of their contract. The risks of loss from these off-balance sheet financial instruments include minimal credit risks, but include the possibility that future changes in market prices may make such financial instruments less valuable (market risk). Not reflected in the pension trust fund financial statements are commitments to acquire real estate for investment totaling \$19 million and alternative equity for \$123 million.

(6) Deposits for Other Agencies

The Treasurer is a named paying agent for various bonds issued by other agencies, e.g., school districts, pursuant to the bond covenants. The proceeds from these issues are deposited in the County pool or as specified in the bond resolution. The amounts deposited belong to the specific agency which issued the bonds and are not assets of the County. The County has no liability with respect to these issues, the repayment of these bonds are from ad valorem taxes levied on the properties in the school district.

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(7) Capital Commitments

At June 30, 2004, major contracts entered into for construction in progress, buildings, equipment and infrastructure were as follow, listed by fund within governmental or business-type activities:

	Project Title	Remaining Commitments
Governmental Activities:		
General Fund	Registrar of Voters-Integrated Voting System and Optional Items	\$ 30,779
	Creative Socio-Medics Corpublic Health Information System Acquisition	1,891
	Sub Total	32,670
Other Governmental Funds	Construction of Valley Center Road South, Phase I	7,549
	Construction of Riverside Drive Improvements in Lakeside	2,642
	Construction of Camino Canada	1,550
	North County Animal Shelter	4,149
	Otay Valley Regional Park Phase II	2,611
	Spring Valley Gym and Teen Center	1,924
	Construction of Polinsky Nursery Addition	1,044
	Vista Detention Control Panels	1,104
	Information Technology - Enterprise Resource Planning System Financing	13,086
	Sub Total	35,659
Business-type Activities		
Sanitation Districts	Construction of Galloway Wastewater Pump Station Improvements and Sewer Force Main Replacement	1,880
	Jamacha Blvd Sewer	2,000
	Sub Total	3,880
	Total	\$ 72,209

(B) Risk Management

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, and general liability. The County purchases insurance for property damage, certain casualty claims, public officials bond, employee dishonesty, faithful performance, volunteers, excess workers' compensation (for losses greater than \$1 million), airport comprehensive, and loss of money and securities based upon site locations. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. The County's Internal Service Fund (ISF) is used to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the public liability and workers compensation total risk liability at June 30, 2004. At June 30, 2004, the amount of these liabilities, including an estimate for claims incurred but not reported, was estimated at \$97.8 million, including \$15.2 million in public liability and \$82.6 million in workers' compensation. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll beginning fiscal year 1996-1997. Changes in the balances of claim liabilities for fiscal year 2002-2003 and 2003-2004 were as follows:

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Fiscal Year	Beginning Balance at July 1, 2003	Current-Year Claims and Changes in Estimates	Claim Payments	Ending Balance at June 30, 2004
2002-2003	\$ 97,794	32,578	(29,784)	\$ 100,588
2003-2004	\$ 100,588	29,096	(31,895)	\$ 97,789

(C) Joint Venture

The County is a participant with eighteen incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one-half of the total required funding each year. The County, by agreement, also provides one-half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for fiscal year 2003-2004 were \$1.3 million. The organization had a cumulative surplus of \$31 thousand at June 30, 2004. Separate financial statements for the joint venture may be obtained from the office of the Auditor and Controller.

(D) Jointly Governed Organizations

The County Board of Supervisors jointly governs two service authorities, the Service Authority for Abandoned Vehicles and the Service Authority for Freeway Emergencies (S.A.F.E.). These Authorities are governed by two seven-member boards, consisting of representatives from the city councils of the incorporated cities within the County and two members of the County Board of Supervisors. The purpose of the authorities is to provide for the removal of abandoned vehicles on streets and highways and to provide for freeway emergency call boxes on major freeways within the County, respectively. Funding for the authorities is derived from vehicle license fee surcharges, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for these authorities.

The County Board of Supervisors and the San Diego City Council jointly govern the San Diego Workforce Partnership (Partnership). The Partnership's Board of Directors consists of two members of the County Board of Supervisors, two members from the San Diego City Council and one member of a charitable organization. The purpose of the Partnership is to provide employment training to area residents. Funding for such training is provided by State and Federal grants.

The County also jointly governs the San Dieguito River Valley Authority, the Serra Cooperative Library System, Southern California Regional Training and Development Center, and the Van Horn Regional Treatment Facility. The governing boards of these entities consist of representatives from the County and/or other regional governments and other counties. The County does not appoint a voting majority to the above boards. Services provided by these entities include park land acquisition, coordination of library services, regional governmental training, and treatment of emotionally disturbed youth.

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(E) San Diego County Employees' Retirement System

(1) Plan Description

The SDCERA administers a cost-sharing, multi-employer defined benefit plan, with County members representing 93.6% of covered employees, which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937, as enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300, San Diego, California 92101 or by calling (619) 515-0130.

(2) Basis of Accounting and Fair Value of Investments (See Notes 1E and 1H, respectively).

(3) Funding Policy

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates (weighted average), in effect at June 30, 2004, expressed as a percentage of salary are 8.39%-8.85% for general members and 9.27% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate, expressed as a percentage of annual covered payroll. The fiscal year 2003-2004 rates, expressed as a percentage of covered payroll, are 19.72% for general members and 32.41% for safety members. Additionally, in accordance with various agreements with employee bargaining units, the County has contributed \$55.6 million on behalf of employees.

In March 2002, the County implemented a new enhanced retirement package. In October 2002, the County issued taxable Pension Obligation Bonds to fund a portion of its statutory obligations arising from enhanced benefits. In June 2004, the County issued Pension Obligation Bonds and transferred \$450 million of the issuance to the retirement fund. As a result, the retirement plan's funding status (the ratio of system assets to system liabilities) was 81.1% at June 30, 2004.

(4) Annual Pension Cost

For the fiscal year ended June 30, 2004, the County's annual pension cost was \$195 million. The County's actual contribution during the fiscal year ended June 30, 2004 totaled \$195 million, resulting in a net pension obligation of zero as of June 30, 2004, compared to zero at the end of the prior year. The required contribution rates, as adopted by the SDCERA Board, were determined as part of the October 3, 2002 interim actuarial valuation based on entry-age actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate-of-return, (b) projected salary increases of 4.5% per year, and (c) cost-of-living increases for retirees of 3%.

(5) Three-Year Trend Information (In Thousands):

Fiscal Year Ended June 30	Annual Pension Cost (ARC)	Percentage of ARC Contributed	Net Pension Obligation
2002	\$	100.0%	\$ 7,686
2003	6,538	100.0%	
2004	194,580	100.0%	

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The Net Pension Obligation of \$7.7 million at June 30, 2002 was eliminated when the County issued Pension Obligation Bonds in October 2002 and the County accounted for the reduction of the liability during fiscal year 2003-2004.

(6) Retiree Health Benefits:

Retiree health benefits may be available to eligible retirees to the extent that the Board of Retirement on an annual basis approves the payments of such benefits. The Board of Supervisors and the Board of Retirement adopted a funding mechanism under 401(h) of the Internal Revenue Service Code, which calls for a portion of the County's contributions to be deposited to a separate account each year. The amount of the contributions placed in this account are then withdrawn from the investment earnings which exceed the assumed rate of return of the portfolio, and placed in the retirement fund to ensure the funding of the pension benefits are made whole and complete. The health benefits fund began its funding with \$19.9 million that can only be used to pay retirement health benefits.

Approximately 9 thousand retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated \$26.4 million for fiscal year 2003-2004. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was approximately \$230.5 million at June 30, 2004, a \$38.7 million decrease from the previous fiscal year.

(F) Prior Year Advance

Prior to the issuance of Revenue Bonds in 1995 by the San Diego County Redevelopment Agency, the County Airport Enterprise Fund funded the initial expenditures of the Agency's two airport projects. The Redevelopment Agency is required to reimburse the Airport Enterprise Fund, which spent approximately \$9.6 million on the projects consisting of \$3.7 million for initial expenditures and \$5.9 million for 2001. The Agency pays interest on advances, but is not responsible for payment until funds are available for this purpose. As of June 30, 2004, interest of approximately \$4.1 million has accrued on these advances, however such amounts have not been recorded because the ultimate collection has not been determined.

(G) New Governmental Accounting Standards

In April 2004, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. This technical bulletin clarifies guidance on whether a Tobacco Settlement Authority that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. In addition, this Technical Bulletin clarifies recognition guidance for these transactions and for payments made to settling governments pursuant to the Master Settlement Agreement with the major tobacco companies. This technical bulletin has been adopted by the County and did not result in a change in accounting during fiscal year 2003-2004.

The County is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risk identified in this statement also should be disclosed. The County will implement the new reporting requirements in its fiscal year 2004-05 financial statements.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting

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and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the County's fiscal year ending June 30, 2006.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the County's fiscal year ending June 30, 2007.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1*. This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the County's fiscal year ending June 30, 2006.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the County's fiscal year ending June 30, 2008.

(H) Securitization of Tobacco Settlement Revenues

The Tobacco Securitization Authority of Southern California (the "Authority") issued \$466.8 million in aggregate principal amount of Tobacco Settlement Asset-Backed Bonds in January of 2002 (the "Bonds"), in order to fund the Authority's loan to San Diego Tobacco Asset Securitization Corporation, a California non-profit public benefit corporation (the "Borrower") pursuant to a loan agreement between the Authority and the Borrower. The Borrower in turn used the net proceeds of the financing, in the amount of \$411 million, to pay to the County, in return for the County's transfer to the Corporation of all of the County's right, title and interest in and to and under a Master Settlement Agreement (the "MSA"), as agreed to by the State and participating jurisdiction, and a Memorandum of Understanding (the "MOU") and a supplemental agreement (the "ARIMOU") among the State of California, all California counties and four California cities, including the right of the County to receive Tobacco Settlement Payments. The MSA was entered into in November 1998, among the Attorney Generals of 46 states, the District of Columbia, The Commonwealth of Puerto Rico, Guam, U.S. Virgin

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(Amounts Expressed In Thousands Unless Otherwise Noted)

Islands, American Samoa and the Commonwealth of Northern Mariana Islands and collectively, the "Settling States" and the four largest tobacco manufacturers. Under the terms of the MSA, the settling tobacco companies agreed, among other things, to make periodic payments in perpetuity ("Tobacco Settlement Payments") in exchange for being released from claims related to the use of tobacco products. Under the MOU and the ARIMOU, the State of California agreed to distribute 50% of the Tobacco Settlement Payments it received to California counties (including the County) and four cities; the relative amounts to be received by the counties is based upon population, with adjustments being made in response to each decennial U.S. census. When the Tobacco Settlement Payments became available to the County, the County Board of Supervisors adopted Board Policy E-14, which establishes guidelines for the allocation of these revenues to new and expanded programs that would serve these targeted populations and also promote healthy lifestyles. The emphasis is on prevention and education, and is intended to reduce the abuse of alcohol, tobacco and other addictive substances, improve mental health services, significantly reduce violence and abuse, reduce the incidence of chronic and infectious diseases, and provide education regarding the effects of tobacco.

Prior to its sale of the Tobacco Settlement Payments, the County of San Diego had received approximately three years of annual payments. The County expects to use approximately \$27.5 million annually from the proceeds from the sale (which were deposited in a special revenue fund and invested in municipal securities) for Board Policy E-14 purposes.

The bonds are limited obligations of the Authority payable solely from payments made by the Corporation, from Tobacco Settlement Payments purchased from the County, between the Corporation and the Authority. For the year ended June 30, 2004, \$29.961 million of Tobacco Settlement Payments were recorded as other revenue in the Tobacco Securitization Joint Special Revenue Fund. The bonds do not constitute a charge against the general credit of the Authority or the County and neither will the Authority (except from loan payments by the Corporation) or the County be obligated to pay the interest on or principal of these bonds. These bonds do not constitute a debt, liability or obligation (legal, moral or otherwise) of the County. The bonds are recorded within the County's reporting entity in accordance with required accounting standards.

Future debt service requirements of the Authority as of June 30, 2004 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
2005	\$ 2,155	24,818	26,973
2006	2,015	24,732	26,747
2007	1,890	24,652	26,542
2008	2,065	24,557	26,622
2009	2,035	24,076	26,111
2010-2014	13,610	118,560	132,170
2015-2019	15,035	115,076	130,111
2020-2024	23,940	110,318	134,258
2025-2029	41,405	102,517	143,922
2030-2034	69,555	88,142	157,697
2035-2039	96,035	66,001	162,036
2040-2043	170,565	31,312	201,877
Total	\$ 440,305	754,761	1,195,066

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(Amounts Expressed In Thousands Unless Otherwise Noted)

(I) New Debt Issued in June 2004

The County issued \$454.1 million of Taxable Pension Obligation Bonds (the "POBs") in June 2004. Of this amount \$450.0 million was paid to the San Diego County Employees Retirement Association, thus reducing the unfunded accrued actuarial liability and the remaining proceeds were used to pay cost of issuance. The POBs have a 20-year amortization and were issued as a Series A, Series B and a Series C. The Series A bonds consist of \$241.2 million of Current Interest Bonds and mature serially with an interest rate scale of 3.28% - 5.865%. The Series B bonds consist of \$147.8 million of Auction Rate Securities and mature on 2024. These bonds carry a variable interest rate and are subject to market fluctuations. The maximum interest rate on such bonds shall not exceed 17% per annum. The Series C bonds consist of \$64.9 million of Capital Appreciation Bonds and mature serially with an interest rate scale of 4.66% - 5.76%. The interest on the POBs is not excludable from gross income for federal income tax purposes but is exempt from State of California personal income taxes.

(J) Subsequent Event

On September 27, 2004, the County of San Diego (the "County") deposited with BNY Western Trust Company (the "Trustee") approximately \$63.5 million (the "Deposit"), which was invested in an Investment Agreement (the "Investment Agreement") entered into by the Trustee and an obligor. The obligations of the obligor under the Investment Agreement are guaranteed by American International Group, Inc. ("AIG"), which has been assigned long-term credit ratings from Moody's Investors Service and Standard & Poor's Ratings Services of "Aaa" and "AAA," respectively. Under the Investment Agreement, the obligor will make payments to the Trustee in July of each of 2005, 2006 and 2007 in amounts which will be sufficient to meet the County's remaining annual payment obligations to a counterparty under a Debt Service Forward Sale Agreement (the "Forward Agreement") currently in effect for the County's Taxable Pension Obligation Bonds, Series A (the "1994 POB Bonds") until the final maturity of the 1994 POB Bonds on August 15, 2007. In exchange for the County's annual payments, the Forward Agreement requires the counterparty thereto to deposit securities (which must be non-callable obligations issued or guaranteed by the United States of America or certain instrumentalities or agencies of the United States of America) into the Bond Fund relating to the 1994 POB Bonds the cash flows of which are sufficient to pay each scheduled payment of principal of and interest on the 1994 POB Bonds during the applicable fiscal year.

The 1994 POB Bonds will remain outstanding until their regularly scheduled maturities; if the obligor under the Investment Agreement, and AIG under its related guaranty, or the counterparty to the Forward Agreement defaults in its respective obligations for any reason, the County remains obligated to make any affected payment of principal of and interest on the 1994 POB Bonds.





Required Supplementary Information

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts	Variance with Final
	Original	Final	Budgetary Basis	Budget- Pos (Neg)
Revenues:				
Taxes	\$ 415,657	415,657	457,062	41,405
Licenses, permits and franchises	31,993	31,993	31,233	(760)
Fines, forfeitures and penalties	35,004	42,516	40,363	(2,153)
Revenue from use of money and property	17,074	16,635	13,872	(2,763)
Aid from other governmental agencies:				
State	878,346	885,398	649,829	(235,569)
Federal	461,396	519,191	588,815	69,624
Other	52,037	53,746	57,442	3,696
Charges for current services	227,948	230,284	246,381	16,097
Other revenue	26,134	44,648	32,058	(12,590)
Total revenues	2,145,589	2,240,068	2,117,055	(123,013)
Expenditures:				
Current:				
General:				
Board of supervisors district # 1	983	1,569	1,387	182
Board of supervisors district # 2	1,049	1,509	1,403	106
Board of supervisors district # 3	970	1,541	1,430	111
Board of supervisors district # 4	986	1,412	1,284	128
Board of supervisors district # 5	1,072	1,685	1,372	313
Board of supervisors general office	917	1,058	1,014	44
Clerk of the board of supervisors	5,720	6,862	6,029	833
CAC major maintenance	1,067	1,581	1,372	209
Chief administrative office	3,877	4,951	4,757	194
Community enhancement	3,034	3,034	3,033	1
Community projects	11,117	7,881	7,877	4
Community services	5,850	8,669	2,422	6,247
Land use and environment	413	484	413	71
Financing and general government group	19,701	19,046	12,522	6,524
Auditor and controller	28,670	38,146	37,770	376
Assessor/recorder/county clerk	28,592	41,415	41,415	
Treasurer/tax collector	14,347	18,438	18,289	149
County counsel	16,758	25,937	24,942	995
Human resources	19,185	24,846	22,923	1,923
Civil service commission	327	448	448	
Register of voters	8,445	43,359	14,907	28,452
County technology office	7,318	9,403	8,447	956
Countywide general expense	11,846	27,034	1,351	25,683
Contribution to capital outlay		129		129
Contingency reserve	11,000	8,000		8,000
Department of public works	508	508	508	
Health and human services agency	2,413	3,166	2,546	620
Total general	\$ 206,165	302,111	219,861	82,250

(Cont)

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	(Cont) Variance with Final Budget- Pos (Neg)
	Original	Final		
Public protection:				
Grand jury	\$ 483	515	515	
District attorney	94,011	135,062	134,076	986
Child support	52,236	74,621	74,424	197
Public defender	42,094	59,280	58,971	309
Alternate public defender	12,891	17,513	16,849	664
Defense attorney / contract administration	7,995	8,622	8,295	327
Contributions for trial courts	68,939	77,433	77,284	149
Sheriff	419,531	547,595	526,268	21,327
Probation	144,499	182,595	177,406	5,189
Agriculture, weight & measures	12,788	16,862	16,206	656
Dept. of animal services	11,156	14,080	13,699	381
LAFCO administration	200	200	200	
Health & human services agency	2,983	3,865	3,865	
Medical examiner	6,156	8,141	8,134	7
Planning and land use	26,440	37,268	32,617	4,651
Public safety	5,271	11,736	6,693	5,043
Citizen's law enforcement review board	513	670	659	11
Land use and environment group	4,451	7,808	4,138	3,670
Assessor / recorder / county clerk	15,894	19,923	19,923	
Department of public works	298	297	214	83
Office of emergency services	2,297	10,044	7,715	2,329
Total public protection	931,126	1,234,130	1,188,151	45,979
Public ways and facilities:				
Public works	3,353	29,171	29,171	
Total public ways and facilities	3,353	29,171	29,171	
Health and sanitation:				
Health and human services agency	504,972	554,243	519,036	35,207
Environmental health	28,940	36,520	32,710	3,810
Department of public works	4,113	21,591	5,258	16,333
Total health and sanitation	538,025	612,354	557,004	55,350
Public assistance:				
Health and human services agency	903,704	1,010,911	939,203	71,708
Housing and community development	10,763	13,936	12,054	1,882
Total public assistance:	914,467	1,024,847	951,257	73,590
Education:				
Farm and home advisor	630	5,822	5,799	23
Total education	630	5,822	5,799	23
Recreational and cultural:				
Parks and recreation	19,346	32,801	26,144	6,657
Total recreational and cultural	19,346	32,801	26,144	6,657
Debt service:				
Countywide general expense	16,825	10,771	5,776	4,995
Total debt service	16,825	10,771	5,776	4,995
Total expenditures	2,629,937	3,252,007	2,983,163	268,844
 Deficiency of revenues under expenditures	 \$ (484,348)	 (1,011,939)	 (866,108)	 145,831

(Cont)

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	(Cont) Variance with Final Budget- Pos (Neg)
	Original	Final		
Other financing sources (uses):				
Sale of capital assets	\$		7	7
Transfers in	490,825	491,797	483,333	(8,464)
Transfers (out)	(246,489)	(251,445)	(203,230)	48,215
Long term debt proceeds	25	454,138	454,113	(25)
Encumbrances, beginning of year	94,617	94,617	94,617	
Total other financing sources (uses)	338,978	789,107	828,840	39,733
 Net change in fund balance	 (145,370)	 (222,832)	 (37,268)	 185,564
 Fund balance - beginning of year	 145,370	 357,865	 357,865	
Increase in:				
Reserve for inventory of materials and supplies			193	193
Fund balance - end of year	\$	135,033	320,790	185,757

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2004
(In Thousands)**

Explanation of differences between budget to actual comparison schedule using the operating statement format and GAAP revenues and expenditures:

REVENUES:

Actual amounts (budgetary basis) "available for appropriation" from budgetary comparison schedule	\$ 2,117,055
Differences-budget to GAAP	
Adjustment to revenue for fair value of investments	(1,151)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u>2,115,904</u>

EXPENDITURES:

Actual amounts (budgetary basis) "total charges to appropriation" from budgetary comparison schedule	2,983,163
Differences-budget to GAAP	
Year end encumbrances are added to actual expenditures for budgetary basis but not included in GAAP	(43,987)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	<u>2,939,176</u>

OTHER FINANCING SOURCES (USES):

Actual amounts (budgetary basis) from budgetary comparison schedule	828,840
Differences - budget to GAAP	
Transfer out - year end encumbrances are added to actual transfers out for budgetary basis but not included for GAAP	41,195
Beginning of year encumbrances are included in budget in the budgetary basis but not included for GAAP	(94,617)
Total other financing sources (uses) as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 775,418</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
TOBACCO SECURITIZATION SPECIAL REVENUE FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues:				
Revenue from use of money and property	\$		4,461	4,461
Other revenue	36,938			
Total revenues	36,938		4,461	4,461
Expenditures:				
Other charges	9,451	9,451		(9,451)
Total expenditures	9,451	9,451		(9,451)
Excess (deficiency) of revenues over (under) expenditures	27,487	(9,451)	4,461	13,912
Other financing sources (uses):				
Transfers (out)	(27,487)	(27,487)	(24,083)	3,404
Total other financing sources (uses)	(27,487)	(27,487)	(24,083)	3,404
Net change in fund balance		(36,938)	(19,622)	17,316
Fund balance - beginning of year			366,119	366,119
Fund balance - end of year	\$	(36,938)	346,497	383,435

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
TOBACCO SECURITIZATION SPECIAL REVENUE FUND
For the Year Ended June 30, 2004
(In Thousands)**

Explanation of differences between budget to actual comparison schedule using the operating statement format and GAAP revenues and expenditures:

REVENUES:

Actual amounts (budgetary basis) "available for appropriation" from budgetary comparison schedule	\$	4,461
Differences-budget to GAAP		
Adjustment to revenue for fair value of investments		<u>(1,925)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	\$	<u>2,536</u>

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2004

Budgetary Information

General Budget Policies

An operating budget is adopted each fiscal year for the governmental funds. The annual resolution adopts the budget at the object level of expenditures within departments. Annual budgets are not required to be adopted for: the Tobacco Securitization Joint Special Revenue Fund (a major fund); SANCAL, a non-profit corporation, and Debt Service and Capital Projects Funds (other governmental funds). Unencumbered appropriations for the governmental funds lapse at fiscal year-end. Encumbered appropriations are carried forward to the subsequent fiscal year. Budgets for the governmental funds are adopted on a basis of accounting that is different from generally accepted accounting principles.

The major areas of differences are as follows:

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported as budgeted expenditures in the year the commitment to purchase is incurred. For GAAP (generally accepted accounting principles) purposes in the fund financial statements, encumbrances outstanding at fiscal year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities, because the appropriations for these commitments will be carried forward and the commitments honored in the subsequent fiscal year.

Long-term capital lease obligations are not budgeted as an expenditure and source of funds in the year the asset is acquired. Under a GAAP basis, in the fund financial statements such obligations are included as an expenditure and source of funds in the year the asset is acquired.

Loans and deposits to other agencies, if any, and their subsequent repayments are budgeted as expenditures and revenues, respectively. Under a GAAP basis in the fund financial statements, these items are not recognized as expenditures and revenues.

On a budgetary basis, unrealized gains and losses on the fair value of investments are not recognized. For GAAP purposes, such gains or losses are recognized.

Appropriations may be adjusted during the year with the approval of the Board of Supervisors. Additionally, the Chief Financial Officer is authorized to approve certain transfers and revisions of appropriations within a department. Such adjustments are reflected in the final budgetary data. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

Supplemental appropriations during the year ended June 30, 2004, amounted to \$617.1 million in the General Fund.

Schedule of Funding Progress

San Diego County Employees' Retirement System

Schedule of Funding Progress (In millions) (unaudited):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)		Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll (b-a)/(c)	
06/30/2002	\$3,831.3	5,078.0	1,246.7	75.4	%	810.3	153.8	%
06/30/2003	4,417.7	5,853.1	1,435.4	75.5		906.1	158.4	
06/30/2004	5,166.8	6,369.5	1,202.7	81.1		917.1	131.1	



Combining Financial Statements/Schedules and Supplemental Information

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

ROAD FUND

This fund was established to provide for maintenance and construction of roadways and for specialized engineering services to other governmental units and the public. Revenues consist primarily of the County's share of state highway user taxes and are supplemented by federal funds, vehicle code fines, and fees and reimbursements for engineering services provided.

HCD FUND

The Housing and Community Development Fund was established to receive federal community development block grants as well as state grants. Expenditures are for special projects related to various housing programs within the County.

AIR POLLUTION FUND

This fund was established to provide for control of air pollution from motor vehicles and other sources in order to attain health based air quality standards. Revenue sources include license and permit fees, fines, state and federal funds, charges to property owners and vehicle registration fees.

LIGHTING DISTRICT FUND

This fund was established to provide street and road lighting services to specified areas of the County. Revenue sources include ad valorem taxes, benefit fees, state funding and charges to property owners.

COUNTY LIBRARY FUND

This fund was established to provide library services for the unincorporated area as well as 11 of the incorporated cities within the county. The County Library now operates a headquarters, 32 branches and 2 bookmobiles. Property taxes provide most of the fund's revenues; federal aid, state aid and fines provide the remaining revenues.

ASSET FORFEITURE PROGRAM FUND

This fund was established to account for assets which have been seized by law enforcement agencies during the investigation of criminal activities. These monies and the interest derived therefrom are used for the prevention, investigation, apprehension and prosecution of drug and other criminal law violators.

INMATE WELFARE PROGRAM FUND

This fund was established to receive telephone and other vending commissions and profits from stores operated in connection with the county jail and probation facilities. Fund expenditures, by law, must be solely for the benefit, education and welfare of confined inmates.

INACTIVE WASTESITES FUND

This fund was established to receive one-time homeowner association deposits and residual funds from the sale of the County's Solid Waste System. Expenditures include repairs, maintenance and care for the County's inactive landfill sites in accordance with all applicable governmental regulations, laws and guidelines.

CABLE TV FUND

This fund was established to account for revenue earned and expenditures made for cable television related projects appropriated for the benefit of the cable subscribers who have paid the user fees for this fund.

PARKLAND DEDICATION FUND

This fund was established to receive and expend special park land dedication fees to developers of land as a condition for approval of any development. The fees are then used for the purchase of land and the development of land for park or recreational facilities. These facilities serve the future residents of such developments. In lieu of the payment of these fees, the developer may dedicate land for park or recreational facilities.

NONPROFIT CORPORATION FUND

The nonprofit corporation fund, San Diego County Capital Asset Leasing Corporation, was established as a cost-effective means of financing the purchase of necessary equipment and the acquisition and construction of permanent buildings on behalf of the County through the sale of tax exempt certificates of participation.

COUNTY SERVICE DISTRICTS FUNDS

These special district funds were established to provide authorized services such as road, park, lighting maintenance, fire protection or ambulance service to specific areas in the County. They are financed by ad valorem property taxes in the area benefited or by special assessments levied on specific properties.

FLOOD CONTROL DISTRICT FUND

This fund was established to account for revenues and expenditures related to providing flood control in the county. It is financed primarily by ad valorem property taxes and federal grants.

HOUSING AUTHORITY FUND

This fund was established to account for revenues and expenditures related to providing decent housing in a suitable environment for individuals who cannot afford standard private housing. Contracts with the U.S. Department of Housing and Urban Development provide the major funding sources.

REALIGNMENT FUND

This fund was established to account for revenues and expenditures related to providing health, mental health and public assistance programs to qualifying individuals. It is based upon the state health and welfare realignment act of 1991. The financing is provided by a one-half cent sales tax as provided in the State's Revenue and Taxation Code.

PUBLIC SAFETY FUND

This fund was established to account for revenues and expenditures related to providing public safety services such as sheriffs, fire protection, county district attorneys and county corrections. It does not include courts, but provides for an allocation to cities. It is financed by a one-half sales and use tax passed through a voter approved state proposition.

IHSS PUBLIC AUTHORITY FUND

This authority was established for the administration of the IHSS registry, investigation of the qualifications and background of potential registry personnel, referral of registry personnel to IHSS recipients and the provision for training of providers and recipients. Financing is provided by the Social Services Realignment fund, federal and state programs.

OTHER SPECIAL DISTRICTS FUNDS

These funds were established to receive user fees, land lease revenues, fines and state funding. Expenditures include retracement or remonument surveys, improvements for grazing lands, wildlife propagation and aviation purpose capital improvements and repairs.

DEBT SERVICE FUNDS

PENSION OBLIGATION BONDS FUND

This fund receives payments from the County and other agencies for payment of principal and interest due on taxable pension obligation bonds. The debt issue was used to satisfy the County's requirement to amortize the unfunded actuarial accrued liability with respect to retirement benefits accruing to members of the association.

NONPROFIT CORPORATION FUND

This fund receives rental payments based on lease purchase agreements from the capital outlay fund and the general fund for payment of principal and interest due on certificates of participation. These debt issuances are legal obligations of a nonprofit corporation and were issued to finance the purchasing of necessary equipment and the acquisition and construction of permanent buildings by the County. Debt is secured by the lease purchase payments from the County.

REDEVELOPMENT AGENCY FUND

This fund receives proceeds of redevelopment area incremental taxes and interest revenues based on a trust agreement between the agency and a trustee bank for payment of principal and interest due on revenue bonds. Pledged installments from the county airport system are deposited with a trustee and are available if taxes and interest are insufficient to pay debt service payments. In addition to the pledged amounts, a bond reserve was funded with bond proceeds.

CAPITAL PROJECTS FUNDS

CAPITAL OUTLAY FUND

This fund is used exclusively to finance the acquisition, construction and completion of permanent public improvements including public buildings and for the costs of acquiring land and permanent improvements. The fund may also be used to make annual payments on bond indebtedness for the construction of public facilities and to acquire public facilities through lease purchases. Revenues are obtained from the sale of fixed assets, from lease or rental of county-owned facilities, and from other funds such as grants and contributions when allocated by the Board of Supervisors to the fund.

EDGEMOOR DEVELOPMENT FUND

This fund is used exclusively for assisting in the development of the Edgemoor property. The Edgemoor property represents approximately 375 acres of county owned land and 50 acres owned by the Grossmont Union High School District in the Santee area. Future development may include parks, a library, housing, a fire station, post office and others. Revenues are derived from the sale or lease of land within the Edgemoor property.

NONPROFIT CORPORATION FUND

This fund is used to account for the expenditure of the proceeds from the sale of nonprofit corporation certificates of participation for the purchase of various types of equipment and the acquisition and construction of permanent buildings by the County.

REDEVELOPMENT AGENCY FUND

This fund is used to account for the proceeds of redevelopment area incremental taxes, interest revenues and temporary loans. Redevelopment project expenditures, in accordance with California community redevelopment law, include redevelopment planning, design, improvement cost, professional services and administrative costs.

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004
(In Thousands)

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
ASSETS				
Equity in pooled cash and investments	\$ 217,531	9,641	26,902	254,074
Cash with fiscal agent	574	6,201	521	7,296
Collections in transit	1,517			1,517
Imprest cash	17			17
Investments	43,669			43,669
Receivables	115,944	124	5,495	121,563
Due from other funds	8,267	2,439	2,762	13,468
Advances to other funds		120		120
Inventory of materials and supplies	1,672			1,672
Deposits with others	1,487		7	1,494
Prepaid items	2		1,283	1,285
Restricted assets:				
Cash with fiscal agent		6,035		6,035
Investments		14,312		14,312
Total assets	390,680	38,872	36,970	466,522
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	12,246		2,785	15,031
Accrued payroll	3,013			3,013
Due to other funds	73,054	531	9,451	83,036
Advances from other funds	581	287	10,245	11,113
Deferred revenue	10,268		1,116	11,384
Total liabilities	99,162	818	23,597	123,577
Fund Balances:				
Reserved for encumbrances	30,208		219	30,427
Reserved for notes receivable and advances	31,583		1,000	32,583
Reserved for deposits with others	304		7	311
Reserved for landfill closure	7,000			7,000
Reserved for inventory of materials and supplies	1,672			1,672
Reserved for debt service		38,054		38,054
Reserved for other purposes	44,079		1,283	45,362
Unreserved:				
Designated for subsequent years' expenditures	786			786
Designated for landfill postclosure and inactive landfill maintenance	76,263			76,263
Undesignated	99,623		10,864	110,487
Total fund balances	291,518	38,054	13,373	342,945
Total liabilities and fund balances	\$ 390,680	38,872	36,970	466,522

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
June 30, 2004
(In Thousands)

	Road	HCD	Air Pollution	Lighting District
ASSETS				
Equity in pooled cash and investments	\$ 38,013	3,421	26,109	462
Cash with fiscal agent	5		2	
Collections in transit		37	509	
Imprest cash	3		1	
Investments				
Receivables	6,040	24,535	1,440	30
Due from other funds	3,715	833	100	9
Inventory of materials and supplies	1,425		75	
Deposits with others	1,183			
Prepaid items				
Total assets	50,384	28,826	28,236	501
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	3,968	707	100	191
Accrued payroll	1,589		562	
Due to other funds	1,554	5,014	408	27
Advances from other funds				
Deferred revenue	1,588		405	
Total liabilities	8,699	5,721	1,475	218
Fund Balances:				
Reserved for encumbrances	7,316		16,083	18
Reserved for notes receivable		23,105		
Reserved for deposits with others				
Reserved for landfill closure				
Reserved for inventory of materials and supplies	1,425		75	
Reserved for other purposes	26,463			202
Unreserved:				
Designated for subsequent years' expenditures			700	
Designated for landfill postclosure and inactive landfill maintenance				
Undesignated	6,481		9,903	63
Total fund balances	41,685	23,105	26,761	283
Total liabilities and fund balances	\$ 50,384	28,826	28,236	501

(Cont)

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
June 30, 2004
(In Thousands)

	(Cont)			
	County Library	Asset Forfeiture Program	Inmate Welfare Program	Inactive Wastesites
ASSETS				
Equity in pooled cash and investments	\$ 8,172	4,144	7,134	43,406
Cash with fiscal agent	12			
Collections in transit		16	172	2
Imprest cash	5		8	
Investments				43,669
Receivables		3		387
Due from other funds	375	15	153	1,205
Inventory of materials and supplies	87	15	69	
Deposits with others				
Prepaid items				
Total assets	<u>8,651</u>	<u>4,193</u>	<u>7,536</u>	<u>88,669</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	750	312	76	4,042
Accrued payroll	703			81
Due to other funds	499	71	296	202
Advances from other funds				
Deferred revenue			1,959	1,081
Total liabilities	<u>1,952</u>	<u>383</u>	<u>2,331</u>	<u>5,406</u>
Fund Balances:				
Reserved for encumbrances	2,087	232	1,136	
Reserved for notes receivable				
Reserved for deposits with others				
Reserved for landfill closure				7,000
Reserved for inventory of materials and supplies	87	15	69	
Reserved for other purposes				
Unreserved:				
Designated for subsequent years' expenditures	86			
Designated for landfill postclosure and inactive landfill maintenance				76,263
Undesignated	4,439	3,563	4,000	
Total fund balances	<u>6,699</u>	<u>3,810</u>	<u>5,205</u>	<u>83,263</u>
Total liabilities and fund balances	<u>\$ 8,651</u>	<u>4,193</u>	<u>7,536</u>	<u>88,669</u>

(Cont)

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
June 30, 2004
(In Thousands)

				(Cont)
	Cable TV	Parkland Dedication	Nonprofit Corporation	County Service Districts
ASSETS				
Equity in pooled cash and investments	\$ 2,136	8,001	599	15,356
Cash with fiscal agent		4	112	
Collections in transit				59
Imprest cash				
Investments				
Receivables				
Due from other funds	109	30	183	124
Inventory of materials and supplies	1			
Deposits with others				
Prepaid items				
Total assets	2,246	8,035	894	15,539
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	46	3	15	571
Accrued payroll	70			8
Due to other funds	24	151		590
Advances from other funds				581
Deferred revenue				710
Total liabilities	140	154	15	2,460
Fund Balances:				
Reserved for encumbrances	148	1,316		580
Reserved for notes receivable				
Reserved for deposits with others				
Reserved for landfill closure				
Reserved for inventory of materials and supplies	1			
Reserved for other purposes				1,366
Unreserved:				
Designated for subsequent years' expenditures				
Designated for landfill postclosure and inactive landfill maintenance				
Undesignated	1,957	6,565	879	11,133
Total fund balances	2,106	7,881	879	13,079
Total liabilities and fund balances	\$ 2,246	8,035	894	15,539

(Cont)

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
June 30, 2004
(In Thousands)**

(Cont)

ASSETS

	Flood Control District	Housing Authority	Realignment
Equity in pooled cash and investments	\$ 20,584	10,104	4,479
Cash with fiscal agent		438	
Collections in transit	5	2	650
Imprest cash			
Investments			
Receivables		9,800	39,084
Due from other funds	103	616	634
Inventory of materials and supplies			
Deposits with others	54	250	
Prepaid items		2	
Total assets	20,746	21,212	44,847

LIABILITIES AND FUND BALANCES**Liabilities:**

Accounts payable	200	1,238	
Accrued payroll			
Due to other funds	143	1,569	13,044
Advances from other funds			
Deferred revenue		4,525	
Total liabilities	343	7,332	13,044

Fund Balances:

Reserved for encumbrances	850		
Reserved for notes receivable		8,478	
Reserved for deposits with others	54	250	
Reserved for landfill closure			
Reserved for inventory of materials and supplies			
Reserved for other purposes	16,048		
Unreserved:			
Designated for subsequent years' expenditures			
Designated for landfill postclosure and inactive landfill maintenance			
Undesignated	3,451	5,152	31,803
Total fund balances	20,403	13,880	31,803

Total liabilities and fund balances

\$ 20,746	21,212	44,847
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(Cont)

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
June 30, 2004
(In Thousands)

				(Cont)
	Public Safety	IHSS Public Authority	Other Special Districts	Total Special Revenue
ASSETS				
Equity in pooled cash and investments	\$ 22,991	2,003	417	217,531
Cash with fiscal agent			1	574
Collections in transit		65		1,517
Imprest cash				17
Investments				43,669
Receivables	34,625			115,944
Due from other funds	49	9	5	8,267
Inventory of materials and supplies				1,672
Deposits with others				1,487
Prepaid items				2
Total assets	57,665	2,077	423	390,680
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable		27		12,246
Accrued payroll				3,013
Due to other funds	47,687	1,715	60	73,054
Advances from other funds				581
Deferred revenue				10,268
Total liabilities	47,687	1,742	60	99,162
Fund Balances:				
Reserved for encumbrances	168	253	21	30,208
Reserved for notes receivable				31,583
Reserved for deposits with others				304
Reserved for landfill closure				7,000
Reserved for inventory of materials and supplies				1,672
Reserved for other purposes				44,079
Unreserved:				
Designated for subsequent years' expenditures				786
Designated for landfill postclosure and inactive landfill maintenance				76,263
Undesignated	9,810	82	342	99,623
Total fund balances	9,978	335	363	291,518
Total liabilities and fund balances	\$ 57,665	2,077	423	390,680

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE
June 30, 2004
(In Thousands)

	Pension Obligation Bonds	Nonprofit Corporation	Redevelopment Agency	Total Debt Service
ASSETS				
Equity in pooled cash and investments	\$ 6,780	1,404	1,457	9,641
Cash with fiscal agent	5,762		439	6,201
Receivables		103	21	124
Due from other funds	2,424	7	8	2,439
Advances to other funds		120		120
Restricted Assets:				
Cash with fiscal agent		6,035		6,035
Investments		14,312		14,312
Total assets	14,966	21,981	1,925	38,872
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds		183	348	531
Advances from other funds			287	287
Total liabilities		183	635	818
Fund balances:				
Reserved for debt service	14,966	21,798	1,290	38,054
Total liabilities and fund balances	\$ 14,966	21,981	1,925	38,872

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS
June 30, 2004
(In Thousands)

	Capital Outlay	Edgemoor Development	Nonprofit Corporation	Redevelopment Agency	Total Capital Projects
ASSETS					
Equity in pooled cash and investments	\$ 14,902	2,189	6,578	3,233	26,902
Cash with fiscal agent			521		521
Receivables	4,470	4		1,021	5,495
Due from other funds	2,342	8	25	387	2,762
Deposits with others	7				7
Prepaid items				1,283	1,283
Total assets	21,721	2,201	7,124	5,924	36,970
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	1,968	4		813	2,785
Due to other funds	9,373	2		76	9,451
Advances from other funds				10,245	10,245
Deferred revenue	1,116				1,116
Total liabilities	12,457	6		11,134	23,597
Fund balances:					
Reserved for encumbrances		179		40	219
Reserved for notes receivables and advances				1,000	1,000
Reserved for deposits with others	7				7
Reserved for other purposes				1,283	1,283
Unreserved	9,257	2,016	7,124	(7,533)	10,864
Total fund balances	9,264	2,195	7,124	(5,210)	13,373
Total liabilities and fund balances	\$ 21,721	2,201	7,124	5,924	36,970

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004
(In Thousands)**

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental
Revenues:				
Taxes	\$ 36,541	775	2,800	40,116
Licenses, permits and franchises	11,019			11,019
Fines, forfeitures and penalties	2,755		3,377	6,132
Revenue from use of money and property	6,109	868	1,592	8,569
Aid from other governmental agencies:				
State	522,310		29,139	551,449
Federal	110,115		2,127	112,242
Other	5,864	5,754	800	12,418
Charges for current services	31,247		9	31,256
Other revenue	3,311		583	3,894
Total revenues	729,271	7,397	40,427	777,095
Expenditures:				
Current:				
General	2,290	1,412	4,750	8,452
Public protection	43,527		639	44,166
Public ways and facilities	91,443			91,443
Health and sanitation	10,438		184	10,622
Public assistance	105,380			105,380
Education	25,510			25,510
Recreational and cultural	993			993
Capital outlay			54,958	54,958
Debt service				
Principal	229	60,680		60,909
Interest	105	61,792		61,897
Bond issuance costs		4,095		4,095
Total expenditures	279,915	127,979	60,531	468,425
Excess (deficiency) of revenues over (under) expenditures	449,356	(120,582)	(20,104)	308,670
Other financing sources (uses):				
Sale of capital assets	2,907		1,130	4,037
Transfers in	89,970	134,032	68,832	292,834
Transfers (out)	(539,317)	(5,416)	(46,329)	(591,062)
Long term debt proceeds	66			66
Total other financing sources (uses)	(446,374)	128,616	23,633	(294,125)
Net change in fund balances	2,982	8,034	3,529	14,545
Fund balances - beginning of year	288,608	30,020	9,844	328,472
Decrease in:				
Reserve for inventory of materials and supplies	(72)			(72)
Fund balances - end of year	\$ 291,518	38,054	13,373	342,945

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
For the Year Ended June 30, 2004
(In Thousands)**

	Road	HCD	Air Pollution	Lighting District
Revenues:				
Taxes	\$ 10,673			769
Licenses, permits and franchises	97		6,573	
Fines, forfeitures and penalties	51		1,705	
Revenue from use of money and property	940		157	6
Aid from other governmental agencies:				
State	45,301		948	11
Federal	4,071	11,905	2,549	
Other		823	4,848	
Charges for current services	19,165		313	266
Other revenue	1,723	64	188	3
Total revenues	82,021	12,792	17,281	1,055
Expenditures:				
Current:				
General				
Public protection			20,101	
Public ways and facilities	86,657			1,963
Health and sanitation				
Public assistance		8,476		
Education				
Recreational and cultural				
Debt service				
Principal				
Interest				
Total expenditures	86,657	8,476	20,101	1,963
Excess deficiency of revenues over (under) expenditures	(4,636)	4,316	(2,820)	(908)
Other financing sources (uses):				
Sale of capital assets				
Transfers in	3,645		4,390	
Transfers (out)	(1,917)	(1,573)	(4,778)	
Long term debt proceeds				
Total other financing sources (uses)	1,728	(1,573)	(388)	
Net change in fund balances	(2,908)	2,743	(3,208)	(908)
Fund balances - beginning of year	44,593	20,362	29,990	1,191
Decrease in:				
Reserve for inventory of materials and supplies			(21)	
Fund balances - end of year	\$ 41,685	23,105	26,761	283

(Cont)

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
For the Year Ended June 30, 2004
(In Thousands)**

				(Cont)
	County Library	Asset Forfeiture Program	Inmate Welfare Program	Inactive Wastesites
Revenues:				
Taxes	\$ 19,591			
Licenses, permits and franchises	841			
Fines, forfeitures and penalties		951		
Revenue from use of money and property	45	21	3,765	881
Aid from other governmental agencies:				
State	835			319
Federal	5			
Other				
Charges for current services	1,165		208	1,185
Other revenue	604	101	322	84
Total revenues	<u>23,086</u>	<u>1,073</u>	<u>4,295</u>	<u>2,469</u>
Expenditures:				
Current:				
General				
Public protection		1,283	2,773	14,236
Public ways and facilities				
Health and sanitation				
Public assistance				
Education	25,510			
Recreational and cultural				
Debt service				
Principal				
Interest				
Total expenditures	<u>25,510</u>	<u>1,283</u>	<u>2,773</u>	<u>14,236</u>
Excess deficiency of revenues over (under) expenditures	(2,424)	(210)	1,522	(11,767)
Other financing sources (uses):				
Sale of capital assets			1	2,331
Transfers in	3,360		400	763
Transfers (out)	(727)	(50)	(2,329)	(282)
Long term debt proceeds				
Total other financing sources (uses)	<u>2,633</u>	<u>(50)</u>	<u>(1,928)</u>	<u>2,812</u>
Net change in fund balances	209	(260)	(406)	(8,955)
Fund balances - beginning of year	6,510	4,077	5,629	92,224
Decrease in:				
Reserve for inventory of materials and supplies	(20)	(7)	(18)	(6)
Fund balances - end of year	<u>\$ 6,699</u>	<u>3,810</u>	<u>5,205</u>	<u>83,263</u>

(Cont)

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
For the Year Ended June 30, 2004
(In Thousands)**

	Cable TV	Parkland Dedication	Nonprofit Corporation	(Cont) County Service Districts
Revenues:				
Taxes	\$			2,725
Licenses, permits and franchises	2,155	1,353		
Fines, forfeitures and penalties	15	39	59	83
Revenue from use of money and property				
Aid from other governmental agencies:				35
State				
Federal				
Other			55	80
Charges for current services	120			6,493
Other revenue	2			68
Total revenues	2,292	1,392	114	9,484
Expenditures:				
Current:				
General	2,240		50	
Public protection				952
Public ways and facilities				1,253
Health and sanitation				4,012
Public assistance				
Education				
Recreational and cultural		69		924
Debt service				
Principal				99
Interest				70
Total expenditures	2,240	69	50	7,310
Excess deficiency of revenues over (under) expenditures	52	1,323	64	2,174
Other financing sources (uses):				
Sale of capital assets				
Transfers in			69,131	2
Transfers (out)	(91)	(360)	(69,865)	(1,108)
Long term debt proceeds				66
Total other financing sources (uses)	(91)	(360)	(734)	(1,040)
Net change in fund balances	(39)	963	(670)	1,134
Fund balances - beginning of year	2,145	6,918	1,549	11,945
Decrease in:				
Reserve for inventory of materials and supplies				
Fund balances - end of year	\$ 2,106	7,881	879	13,079

(Cont)

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
For the Year Ended June 30, 2004
(In Thousands)**

(Cont)

	Flood Control Districts	Housing Authority	Realignment	Public Safety
Revenues:				
Taxes	\$ 2,783			
Licenses, permits and franchises				
Fines, forfeitures and penalties				
Revenue from use of money and property		77		
Aid from other governmental agencies:				
State	39		273,656	201,136
Federal	1	91,583		
Other	8	50		
Charges for current services	1,917	227		
Other revenue		152		
Total revenues	4,748	92,089	273,656	201,136
Expenditures:				
Current:				
General				
Public protection	4,174			
Public ways and facilities				
Health and sanitation				
Public assistance		96,904		
Education				
Recreational and cultural				
Debt service				
Principal		130		
Interest		35		
Total expenditures	4,174	97,069		
Excess deficiency of revenues over (under) expenditures	574	(4,980)	273,656	201,136
Other financing sources (uses):				
Sale of capital assets		575		
Transfers in		1,577		
Transfers (out)	(520)	(411)	(263,486)	(191,637)
Long term debt proceeds				
Total other financing sources (uses)	(520)	1,741	(263,486)	(191,637)
Net change in fund balances	54	(3,239)	10,170	9,499
Fund balances - beginning of year	20,349	17,119	21,633	479
Decrease in:				
Reserve for inventory of materials and supplies				
Fund balances - end of year	\$ 20,403	13,880	31,803	9,978

(Cont)

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
For the Year Ended June 30, 2004
(In Thousands)**

			(Cont)
	IHSS Public Authority	Other Special Districts	Total Special Revenue
Revenues:			
Taxes	\$		36,541
Licenses, permits and franchises			11,019
Fines, forfeitures and penalties		48	2,755
Revenue from use of money and property	15	6	6,109
Aid from other governmental agencies:			
State		30	522,310
Federal		1	110,115
Other			5,864
Charges for current services		188	31,247
Other revenue			3,311
Total revenues	15	273	729,271
Expenditures:			
Current:			
General			2,290
Public protection		8	43,527
Public ways and facilities		1,570	91,443
Health and sanitation	6,426		10,438
Public assistance			105,380
Education			25,510
Recreational and cultural			993
Debt service			
Principal			229
Interest			105
Total expenditures	6,426	1,578	279,915
Excess deficiency of revenues over (under) expenditures	(6,411)	(1,305)	449,356
Other financing sources (uses):			
Sale of capital assets			2,907
Transfers in	6,702		89,970
Transfers (out)		(183)	(539,317)
Long term debt proceeds			66
Total other financing sources (uses)	6,702	(183)	(446,374)
Net change in fund balances	291	(1,488)	2,982
Fund balances - beginning of year	44	1,851	288,608
Decrease in:			
Reserve for inventory of materials and supplies			(72)
Fund balances - end of year	\$ 335	363	291,518

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
For the Year Ended June 30, 2004
(In Thousands)**

	Pension Obligation Bonds	Nonprofit Corporation	Redevelopment Agency	Total Debt Service
Revenues:				
Taxes	\$		775	775
Revenue from use of money and property	5	845	18	868
Aid from other governmental agencies: Other	5,754			5,754
Total revenues	5,759	845	793	7,397
Expenditures:				
Current:				
General	1,118	294		1,412
Debt service				
Principal	9,630	50,920	130	60,680
Interest	42,246	19,254	292	61,792
Bond issuance costs	4,095			4,095
Total expenditures	57,089	70,468	422	127,979
Excess (deficiency) of revenues over (under) expenditures	(51,330)	(69,623)	371	(120,582)
Other financing sources (uses):				
Transfers in	63,927	70,105		134,032
Transfers (out)		(4,641)	(775)	(5,416)
Total other financing sources (uses)	63,927	65,464	(775)	128,616
Net change in fund balances	12,597	(4,159)	(404)	8,034
Fund balances - beginning of year	2,369	25,957	1,694	30,020
Fund balances - end of year	\$ 14,966	21,798	1,290	38,054

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
For the Year Ended June 30, 2004
(In Thousands)**

	Capital Outlay	Edgemoor Development	Nonprofit Corporation	Redevelopment Agency	Total Capital Projects
Revenues:					
Taxes	\$ 442			2,358	2,800
Fines, forfeitures and penalties	3,377				3,377
Revenue from use of money and property	1,232	282	56	22	1,592
Aid from other governmental agencies:					
State	29,139				29,139
Federal	2,127				2,127
Other	800				800
Charges for current services	9				9
Other revenue	333	250			583
Total revenues	37,459	532	56	2,380	40,427
Expenditures:					
Current:					
General	3,260			1,490	4,750
Public protection				639	639
Health and sanitation		184			184
Capital outlay	52,672		2,286		54,958
Total expenditures	55,932	184	2,286	2,129	60,531
Excess (deficiency) of revenues over (under) expenditures	(18,473)	348	(2,230)	251	(20,104)
Other financing sources (uses):					
Sale of capital assets	555	575			1,130
Transfers in	68,057			775	68,832
Transfers (out)	(45,971)		(358)		(46,329)
Total other financing sources (uses)	22,641	575	(358)	775	23,633
Net change in fund balances	4,168	923	(2,588)	1,026	3,529
Fund balances - beginning of year	5,096	1,272	9,712	(6,236)	9,844
Fund balances - end of year	\$ 9,264	2,195	7,124	(5,210)	13,373

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
ROAD FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts	Variance with Final
	Original	Final	Budgetary Basis	Budget- Pos (Neg)
Revenues				
Taxes	\$ 21,969	49,030	10,673	(38,357)
Licenses, permits and franchises	90	90	97	7
Fines, forfeitures and penalties			51	51
Revenue from use of money and property	802	802	1,324	522
Aid from other governmental agencies:				
State	45,138	45,138	45,301	163
Federal	4,771	11,105	4,071	(7,034)
Charges for current services	26,392	28,520	19,165	(9,355)
Other revenue	51	371	1,723	1,352
Total revenues	99,213	135,056	82,405	(52,651)
Expenditures				
Current:				
Public ways and facilities				
Public works road	156,905	156,261	95,023	61,238
Total expenditures	156,905	156,261	95,023	61,238
Excess (deficiency) of revenues over (under) expenditures	(57,692)	(21,205)	(12,618)	8,587
Other financing sources (uses)				
Transfers in	475	4,805	3,645	(1,160)
Transfers (out)	(1,884)	(1,965)	(1,917)	48
Encumbrances, beginning of year	17,850	17,850	17,850	
Total other financing sources (uses)	16,441	20,690	19,578	(1,112)
Net change in fund balance	\$ (41,251)	(515)	6,960	7,475

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL**

**HCD FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Aid from other governmental agencies:				
State		1,000		(1,000)
Federal	\$ 28,442	35,094	11,905	(23,189)
Other	162	184	823	639
Other revenue			64	64
Total revenues	28,604	36,278	12,792	(23,486)
Expenditures				
Current:				
Public assistance				
Housing and community dev.	23,263	28,599	6,985	21,614
Total expenditures	23,263	28,599	6,985	21,614
Excess of revenues over expenditures	5,341	7,679	5,807	(1,872)
Other financing sources (uses)				
Transfers (out)	(5,341)	(7,679)	(3,064)	4,615
Total other financing sources (uses)	(5,341)	(7,679)	(3,064)	4,615
Net change in fund balance	\$		2,743	2,743

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
AIR POLLUTION FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Licenses, permits and franchises	\$ 6,901	6,900	6,573	(327)
Fines, forfeitures and penalties	532	667	1,705	1,038
Revenue from use of money and property	300	300	427	127
Aid from other governmental agencies:				
State	821	1,638	948	(690)
Federal	2,357	2,357	2,549	192
Other	4,190	4,190	4,848	658
Charges for current services	1,038	1,038	313	(725)
Other revenue			188	188
Total revenues	16,139	17,090	17,551	461
Expenditures				
Current:				
Health and sanitation				
Air pollution control	36,196	40,691	36,184	4,507
Total expenditures	36,196	40,691	36,184	4,507
Deficiency of revenues over (under) expenditures	(20,057)	(23,601)	(18,633)	4,968
Other financing sources (uses)				
Sale of capital assets				
Transfers in	4,390	4,390	4,390	
Transfers (out)	(4,778)	(4,778)	(4,778)	
Encumbrances, beginning of year	18,888	18,888	18,888	
Total other financing sources (uses)	18,500	18,500	18,500	
Net change in fund balance	\$ (1,557)	(5,101)	(133)	4,968

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
LIGHTING DISTRICT FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Taxes	\$ 780	780	769	(11)
Revenue from use of money and property	23	23	13	(10)
Aid from other governmental agencies:				
State	20	20	11	(9)
Charges for current services	230	230	266	36
Other revenue			3	3
Total revenues	1,053	1,053	1,062	9
Expenditures				
Current:				
Public ways and facilities				
Public works lighting district	1,992	1,992	1,980	12
Total expenditures	1,992	1,992	1,980	12
Deficiency of revenues over (under) expenditures	(939)	(939)	(918)	21
Other financing sources (uses)				
Encumbrances, beginning of year	115	115	115	
Total other financing sources (uses)	115	115	115	
Net change in fund balance	\$ (824)	(824)	(803)	21

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
COUNTY LIBRARY FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Taxes	\$ 18,287	18,287	19,591	1,304
Licenses, permits and franchises	479	479	841	362
Revenue from use of money and property	189	189	124	(65)
Aid from other governmental agencies:				
State	1,475	1,475	835	(640)
Federal	2	2	5	3
Charges for current services	1,087	1,087	1,165	78
Other revenue	585	585	604	19
Total revenues	22,104	22,104	23,165	1,061
Expenditures				
Current:				
Education				
County library	30,279	30,251	25,996	4,255
Total expenditures	30,279	30,251	25,996	4,255
Deficiency of revenues over (under) expenditures	(8,175)	(8,147)	(2,831)	5,316
Other financing sources (uses)				
Transfers in	3,360	3,360	3,360	
Transfers (out)	(823)	(930)	(727)	203
Encumbrances, beginning of year	4,140	4,140	4,140	
Total other financing sources (uses)	6,677	6,570	6,773	203
Net change in fund balance	\$ (1,498)	(1,577)	3,942	5,519

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
ASSET FORFEITURE PROGRAM FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Fines, forfeitures and penalties	\$ 600	605	951	346
Revenue from use of money and property			62	62
Other revenue			101	101
Total revenues	600	605	1,114	509
Expenditures				
Current:				
Public protection				
Sheriff's asset forfeiture	2,114	2,085	946	1,139
Probation asset forfeiture	65	65	41	24
DA asset forfeiture		707	478	229
DA asset forfeiture - state		57	50	7
Total expenditures	2,179	2,914	1,515	1,399
Deficiency of revenues over (under) expenditures	(1,579)	(2,309)	(401)	1,908
Other financing sources (uses)				
Transfers (out)		(51)	(50)	1
Encumbrances, beginning of year	519	519	519	
Total other financing sources (uses)	519	468	469	1
Net change in fund balance	\$ (1,060)	(1,841)	68	1,909

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
INMATE WELFARE PROGRAM FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Revenue from use of money and property	\$ 3,700	3,700	3,839	139
Charges for current services			208	208
Other revenue	300	300	322	22
Total revenues	4,000	4,000	4,369	369
Expenditures				
Current:				
Public protection				
Sheriff's inmate welfare	4,151	3,011	2,929	82
Probation inmate welfare	230	228	218	10
Total expenditures	4,381	3,239	3,147	92
Excess (deficiency) of revenues over (under) expenditures	(381)	761	1,222	461
Other financing sources (uses)				
Sale of capital assets			1	1
Transfers in	400	400	400	
Transfers (out)	(3,651)	(3,649)	(3,091)	558
Encumbrances, beginning of year	875	875	875	
Total other financing sources (uses)	(2,376)	(2,374)	(1,815)	559
Net change in fund balance	\$ (2,757)	(1,613)	(593)	1,020

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
INACTIVE WASTESITES FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
\$				
Revenue from use of money and property	576	576	881	305
Aid from other governmental agencies:				
State	243	263	319	56
Other				
Charges for current services	1,241	1,241	1,185	(56)
Other revenue	13,014	14,284	84	(14,200)
Total revenues	15,074	16,364	2,469	(13,895)
Expenditures				
Current:				
Public protection				
Inactive waste site management	14,713	16,542	14,700	1,842
Debt service				
Total expenditures	14,713	16,542	14,700	1,842
Excess (deficiency) of revenues over (under) expenditures	361	(178)	(12,231)	(12,053)
Other financing sources (uses)				
Sale of Capital Assets			2,331	2,331
Transfers in	394	904	763	(141)
Transfers (out)	(755)	(755)	(282)	473
Total other financing sources (uses)	(361)	149	2,812	2,663
Net change in fund balance	\$	(29)	(9,419)	(9,390)

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
CABLE TV FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Licenses, permits and franchises	\$ 2,444	2,444	2,155	(289)
Revenue from use of money and property			36	36
Charges for current services			120	120
Other revenue			2	2
Total revenues	2,444	2,444	2,313	(131)
Expenditures				
Current:				
General				
Media and public relations	2,436	2,735	2,388	347
Total expenditures	2,436	2,735	2,388	347
Excess (deficiency) of revenues over (under) expenditures	8	(291)	(75)	216
Other financing sources (uses)				
Transfers (out)	(91)	(91)	(91)	
Encumbrances, beginning of year	83	83	83	
Total other financing sources (uses)	(8)	(8)	(8)	
Net change in fund balance	\$	(299)	(83)	216

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
PARKLAND DEDICATION FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Licenses, permits and franchises	\$ 219	219	1,353	1,134
Revenue from use of money and property	5	5	119	114
Total revenues	224	224	1,472	1,248
Expenditures				
Current:				
Recreational and cultural				
Parks & recreation parkland dedication	640	350	69	281
Total expenditures	640	350	69	281
Excess (deficiency) of revenues over (under) expenditures	(416)	(126)	1,403	1,529
Other financing sources (uses)				
Transfers (out)	(232)	(1,434)	(360)	1,074
Encumbrances, beginning of year	560	560	560	
Total other financing sources (uses)	328	(874)	200	1,074
Net change in fund balance	\$ (88)	(1,000)	1,603	2,603

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
COUNTY SERVICE DISTRICTS FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Taxes	\$ 2,211	2,211	2,725	514
Revenue from use of money and property	226	226	234	8
Aid from other governmental agencies:				
State	75	22	35	13
Other		53	80	27
Charges for current services	6,623	6,658	6,493	(165)
Other revenue			68	68
Total revenues	9,135	9,170	9,635	465
Expenditures				
Current:				
Public protection				
Sheriff	848	848	222	626
Public works	739	819	754	65
Public ways and facilities				
Public works	5,944	6,071	1,512	4,559
Health and sanitation				
Health & human services	4,410	4,300	4,244	56
Public works	91	91	32	59
Recreational and cultural				
Parks & recreations	2,215	2,223	953	1,270
Debt service	497	525	355	170
Total expenditures	14,744	14,877	8,072	6,805
Excess (deficiency) of revenues over (under) expenditures	(5,609)	(5,707)	1,563	7,270
Other financing sources (uses)				
Transfers in	208	2	2	
Transfers (out)	(546)	(539)	(1,108)	(569)
Long term debt proceeds		289	66	(223)
Encumbrances, beginning of year	192	192	192	
Total other financing sources (uses)	(146)	(56)	(848)	(792)
Net change in fund balance	\$ (5,755)	(5,763)	715	6,478

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
FLOOD CONTROL DISTRICTS FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Taxes	\$ 2,525	2,525	2,783	258
Revenue from use of money and property	110	110	206	96
Aid from other governmental agencies:				
State			39	39
Federal			1	1
Charges for current services	26	26	8	(18)
Other revenue	2,922	3,177	1,917	(1,260)
Total revenues	5,583	5,838	4,954	(884)
Expenditures				
Current:				
Public protection				
Public works flood control district	7,497	7,752	5,024	2,728
Total expenditures	7,497	7,752	5,024	2,728
Deficiency of revenues over (under) expenditures	(1,914)	(1,914)	(70)	1,844
Other financing sources (uses)				
Transfers (out)	(520)	(520)	(520)	
Encumbrances, beginning of year	1,358	1,358	1,358	
Total other financing sources (uses)	838	838	838	
Net change in fund balance	\$ (1,076)	(1,076)	768	1,844

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
HOUSING AUTHORITY FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Revenue from use of money and property			77	77
Aid from other governmental agencies:				
State	54	54		(54)
Federal	86,127	92,802	91,583	(1,219)
Other	1,443	1,443	50	(1,393)
Charges for current services	1,530	429	227	(202)
Other revenue	1,577	1,610	152	(1,458)
Total revenues	90,731	96,338	92,089	(4,249)
Expenditures				
Current:				
Public assistance				
Housing authority	96,654	99,224	96,904	2,320
Debt Service				
Principal			130	(130)
Interest			35	(35)
Total expenditures	96,654	99,224	97,069	2,155
Deficiency of revenues over (under) expenditures	(5,923)	(2,886)	(4,980)	(2,094)
Other financing sources (uses)				
Transfers in	5,308	2,194	1,577	(617)
Transfers Out			(411)	(411)
Sale of capital assets		50	575	525
Total other financing sources (uses)	5,308	2,244	1,741	(503)
Net change in fund balance	\$ (615)	(642)	(3,239)	(2,597)

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
REALIGNMENT FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Aid from other governmental agencies:				
State	\$ 259,510	259,510	273,763	14,253
Total revenues	259,510	259,510	273,763	14,253
Excess of revenues over expenditures	259,510	259,510	273,763	14,253
Other financing sources (uses)				
Transfers (out)	(281,604)	(281,604)	(263,486)	18,118
Total other financing sources (uses)	(281,604)	(281,604)	(263,486)	18,118
Net change in fund balance	\$ (22,094)	(22,094)	10,277	32,371

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
PUBLIC SAFETY FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Aid from other governmental agencies:				
State	\$ 191,438	191,438	201,214	9,776
Total revenues	191,438	191,438	201,214	9,776
Excess (deficiency) of revenues over expenditures	191,438	191,438	201,214	9,776
Other financing sources (uses)				
Transfers (out)	(191,805)	(191,805)	(191,805)	
Encumbrances, beginning of year	367	367	367	
Total other financing sources (uses)	(191,438)	(191,438)	(191,438)	
Net change in fund balance	\$		9,776	9,776

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
IHSS PUBLIC AUTHORITY FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Revenue from use of money and property			33	33
Total revenues			33	33
Expenditures				
Current:				
Public assistance				
Health & human services	8,919	8,898	6,679	2,219
Total expenditures	8,919	8,898	6,679	2,219
Excess (deficiency) of revenues over (under) expenditures	(8,919)	(8,898)	(6,646)	2,252
Other financing sources (uses)				
Transfers in	8,878	8,878	6,702	(2,176)
Encumbrances, beginning of year	41	41	41	
Total other financing sources (uses)	8,919	8,919	6,743	(2,176)
Net change in fund balance	\$	21	97	76

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
OTHER SPECIAL DISTRICTS FUND
For the Year Ended June 30, 2004
(In Thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Fines, forfeitures and penalties	\$ 16	16	48	32
Revenue from use of money	50	50	19	(31)
Aid from other governmental agencies:				
State	276	276	30	(246)
Federal			1	1
Charges for current services	150	150	188	38
Total revenues	492	492	286	(206)
Expenditures				
Current:				
General				
Agriculture weights & measures fish & game	39	39	8	31
Public ways and facilities				
Public works special aviation	1,231	1,670	1,570	100
Debt service				
Total expenditures	1,270	1,709	1,578	131
Excess (deficiency) of revenues over (under) expenditures	(778)	(1,217)	(1,292)	(75)
Other financing sources (uses)				
Transfers (out)	(275)	(275)	(183)	92
Total other financing sources (uses)	(275)	(275)	(183)	92
Net change in fund balance	\$ (1,053)	(1,492)	(1,475)	17

ENTERPRISE FUNDS

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

Airport Fund

This fund is used to account for the maintenance, operations and development of County airports. A major objective of the airport program is to purchase and develop airport property in order to create tax revenues and create jobs in the private sector.

Wastewater Management

This fund is used to account for operational services and support provided to sanitation districts governed by the Board of Supervisors.



COMBINING STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
June 30, 2004
(In Thousands)

	Airport	Wastewater Management	Total
ASSETS			
Current assets:			
Equity in pooled cash and investments	\$ 3,919	1,655	5,574
Collections in transit	656		656
Imprest cash	1	1	2
Accounts and notes receivable	1,096	1	1,097
Due from other funds	149	1,388	1,537
Advances to other funds	9,412		9,412
Total current assets	15,233	3,045	18,278
Capital assets:			
Land	9,588	20	9,608
Construction and contracts in progress	10,453		10,453
Buildings and equipment	35,408	915	36,323
Less accumulated depreciation	(18,961)	(491)	(19,452)
Total noncurrent assets	36,488	444	36,932
Total assets	51,721	3,489	55,210
LIABILITIES			
Current liabilities:			
Accounts payable	327	16	343
Accrued payroll	116	154	270
Due to other funds	1,111	152	1,263
Compensated absences	14	20	34
Deferred revenue	280		280
Bonds, notes, and loans payable	167		167
Total current liabilities	2,015	342	2,357
Noncurrent liabilities:			
Compensated absences	129	182	311
Bonds, notes, and loans payable	2,831		2,831
Total noncurrent liabilities	2,960	182	3,142
Total liabilities	4,975	524	5,499
NET ASSETS			
Invested in capital assets, net of related debt	33,489	444	33,933
Unrestricted	13,257	2,521	15,778
Total net assets	\$ 46,746	2,965	49,711

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - ENTERPRISE FUNDS
For the Year Ended June 30, 2004
(In Thousands)**

	Airport	Wastewater Management	Total
Operating revenues			
Charges for services	\$ 6,734	5,447	12,181
Total operating revenue	6,734	5,447	12,181
Operating expenses			
Salaries	2,392	3,293	5,685
Repairs and maintenance	344	68	412
Equipment rental	282	380	662
Contracted services	1,463	853	2,316
Depreciation	767	24	791
Utilities	120	9	129
Other operating expenses	456	118	574
Total operating expenses	5,824	4,745	10,569
Operating income (loss)	910	702	1,612
Nonoperating revenues (expenses)			
Investment income	48	12	60
Grants	4,153		4,153
Interest expense	(177)		(177)
Other nonoperating expenses	(1,714)		(1,714)
Total nonoperating revenues (expenses)	2,310	12	2,322
Income (loss) before contributions and transfers	3,220	714	3,934
Capital contributions	856		856
Transfers in	9	15	24
Transfers (out)	(537)	(160)	(697)
Change in net assets	3,548	569	4,117
Total net assets--beginning	43,198	2,396	45,594
Total net assets--ending	\$ 46,746	2,965	49,711

COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

	Airport	Wastewater Management	Total
Cash flows from operating activities:			
Cash received from customers	\$ 6,829	4,702	11,531
Cash received from other funds	668	(253)	415
Other cash receipts	1,440		1,440
Cash payments to suppliers	(2,162)	(3,225)	(5,387)
Cash payments to employees	(2,323)	(1,140)	(3,463)
Cash payments to other funds	(564)		(564)
Net cash provided by operating activities	3,888	84	3,972
Cash flows from non-capital financing activities:			
Grants	4,408		4,408
Transfers from other funds	9	15	24
Transfers to other funds	(537)	(160)	(697)
Advances to other funds	225		225
Net cash provided by (used for) non-capital financing activities	4,105	(145)	3,960
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(8,713)		(8,713)
Capital contributions	856		856
Principal paid on long-term debt	(155)		(155)
Interest paid on long-term debt	(177)		(177)
Net cash used for capital and related financing activities	(8,189)		(8,189)
Cash flows from investing activities:			
Interest	51	12	63
Net decrease in cash & cash equivalents	(145)	(49)	(194)
Cash and cash equivalents - beginning of year	4,721	1,705	6,426
Cash and cash equivalents - end of year	4,576	1,656	6,232
Reconciliation of operating income (loss):			
Operating income (loss)	910	702	1,612
Other non operating revenues	1,440		1,440
Adjustments to reconcile:			
Increase (decrease) in compensated absences	24	23	47
Increase (decrease) in accrued payroll	45	47	92
Increase (decrease) in due to other funds	792	25	817
Increase (decrease) in accounts payable	(852)	8	(844)
Decrease (increase) in accounts receivable	(174)		(174)
Increase (decrease) in deferred revenue	268		268
Decrease (increase) in due from other funds	668	(745)	(77)
Depreciation	767	24	791
Net cash provided by operating activities	3,888	84	3,972
Non-cash investing and capital financing activities:			
Accrued interest	3		3
Capital acquisition included in accounts payable	168		168
Total non-cash investing and capital financing activities	\$ 171		171

INTERNAL SERVICE FUNDS

Internal service funds are established to account for services furnished to other county departments and are financed primarily by these service charges. Because they are exempt from budgetary control, they are free to employ commercial accounting techniques, and are often used in situations where a more accurate determination of operating results is desired.

ROAD AND COMMUNICATION EQUIPMENT FUND

This fund was established to account for the financing of public works and communications equipment provided to other county departments on a cost reimbursement basis.

PURCHASING FUND

This fund accounts for the financing of materials and supplies provided to county departments and provides printing and record storage services; all on a cost reimbursement basis.

SPECIAL DISTRICT LOANS FUND

This fund was established to provide financing for start up services for new and existing county service districts on a cost reimbursement basis.

RISK FINANCING FUND

This fund was established to account for all of the county's uninsured risk management activities.

FLEET SERVICES FUND

This fund was established to account for the financing of General Services' Fleet vehicles provided to other County departments on a cost reimbursement basis.

FACILITIES MANAGEMENT FUND

This fund was established to account for the financing of public service utilities, property management, architectural and engineering services and mail services provided to other county departments on a cost reimbursement basis.

INFORMATION TECHNOLOGY FUND

This fund was established to account for the financing of software applications for human resources, payroll, and financial systems as well as telecommunication services provided to other county departments on a cost reimbursement basis.

OTHER MISCELLANEOUS FUND

This fund was established to provide for the financing of clothing and personal sundry items for persons institutionalized at various County facilities.

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2004
(In Thousands)

	Road and Communication Equipment	Purchasing	Special District Loans
ASSETS			
Current assets:			
Equity in pooled cash and investments	\$ 12,687	2,561	441
Collections in transit	15		
Imprest cash		200	
Accounts receivable		5	
Due from other funds	223	725	4
Advances to other funds			461
Inventory of materials and supplies		234	
Total current assets	<u>12,925</u>	<u>3,725</u>	<u>906</u>
Capital assets:			
Contracts in progress			
Buildings and equipment	24,073	1,007	
Less accumulated depreciation	<u>(12,504)</u>	<u>(654)</u>	
Total noncurrent assets	<u>11,569</u>	<u>353</u>	
Total assets	<u>24,494</u>	<u>4,078</u>	<u>906</u>
LIABILITIES			
Current liabilities:			
Accounts payable	240	72	
Accrued payroll		331	
Accrued interest			
Due to other funds	662	105	
Claims and judgments			
Compensated absences		40	
Deferred Revenue			
Bonds, notes, and loans payable			
Total current liabilities	<u>902</u>	<u>548</u>	
Noncurrent liabilities:			
Compensated absences		357	
Bonds, notes, and loans payable			
Claims and judgments			
Total noncurrent liabilities		<u>357</u>	
Total liabilities	<u>902</u>	<u>905</u>	
NET ASSETS			
Invested in capital assets, net of related debt	11,569	353	
Unrestricted	<u>12,023</u>	<u>2,820</u>	<u>906</u>
Total net assets	<u>\$ 23,592</u>	<u>3,173</u>	<u>906</u>

(Cont)

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2004
(In Thousands)

(Cont)

	Risk Financing	Fleet Services	Facilities Management
ASSETS			
Current assets:			
Equity in pooled cash and investments	\$ 81,252	16,949	4,274
Collections in transit		52	22
Imprest cash			2
Accounts receivable		194	292
Due from other funds	3,786	928	5,457
Advances to other funds	296		
Inventory of materials and supplies		528	33
Total current assets	85,334	18,651	10,080
Capital assets:			
Contracts in progress			
Buildings and equipment		77,002	1,061
Less accumulated depreciation		(37,806)	(750)
Total noncurrent assets		39,196	311
Total assets	85,334	57,847	10,391
LIABILITIES			
Current liabilities:			
Accounts payable	2,070	1,754	2,399
Accrued payroll		206	986
Accrued interest		14	
Due to other funds	3,005	235	4,984
Claims and judgments	31,168		
Compensated absences		26	149
Deferred Revenue			43
Bonds, notes, and loans payable			115
Total current liabilities	36,243	2,235	8,676
Noncurrent liabilities:			
Compensated absences		240	1,340
Bonds, notes, and loans payable			1,863
Claims and judgments	66,621		
Total noncurrent liabilities	66,621	240	3,203
Total liabilities	102,864	2,475	11,879
NET ASSETS			
Invested in capital assets, net of related debt		39,196	311
Unrestricted	(17,530)	16,176	(1,799)
Total net assets	\$ (17,530)	55,372	(1,488)

(Cont)

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2004
(In Thousands)

(Cont)

	Information Technology	Other Miscellaneous	Total
ASSETS			
Current assets:			
Equity in pooled cash and investments	\$ 42,662	2,272	163,098
Collections in transit		129	218
Imprest cash			202
Accounts receivable	2,503		2,994
Due from other funds	8,600	8	19,731
Advances to other funds			757
Inventory of materials and supplies		68	863
Total current assets	53,765	2,477	187,863
Capital assets:			
Contracts in progress	47,053		47,053
Buildings and equipment		288	103,431
Less accumulated depreciation		(198)	(51,912)
Total noncurrent assets	47,053	90	98,572
Total assets	100,818	2,567	286,435
LIABILITIES			
Current liabilities:			
Accounts payable	9,578	260	16,373
Accrued payroll			1,523
Accrued interest			14
Due to other funds	44,076	234	53,301
Claims and judgments			31,168
Compensated absences			215
Deferred Revenue			43
Bonds, notes, and loans payable			115
Total current liabilities	53,654	494	102,752
Noncurrent liabilities:			
Compensated absences			1,937
Bonds, notes, and loans payable			1,863
Claims and judgments			66,621
Total noncurrent liabilities			70,421
Total liabilities	53,654	494	173,173
NET ASSETS			
Invested in capital assets, net of related debt	47,053	90	98,572
Unrestricted	111	1,983	14,690
Total net assets	\$ 47,164	2,073	113,262

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004
(IN THOUSANDS)**

	Road and Communication Equipment	Purchasing	Special District Loans	Risk Financing
Operating revenues				
Charges for services	\$ 4,731	22,318		35,498
Miscellaneous		211		11
Total operating revenue	4,731	22,529		35,509
Operating expenses				
Salaries		5,289		
Repairs and maintenance	2,297	206		
Equipment rental		216		
Contracted services	38	2,080		
Depreciation	1,742	103		
Utilities		158		
Cost of material		15,862		
Claims and judgments				29,096
Fuel	626	1		
Other operating expenses	209	203		
Total operating expenses	4,912	24,118		29,096
Operating income (loss)	(181)	(1,589)		6,413
Nonoperating revenues (expenses)				
Investment income	83	11		
Interest expense			(3)	
Grant revenue				
Loss on disposal of equipment	(82)	(48)		
Other non-operating expense		(71)		
Total nonoperating revenues (expenses)	1	(108)	(3)	
Income (loss) before contributions and transfers	(180)	(1,697)	(3)	6,413
Capital contributions		184		
Transfers in	167	1,950		
Transfers (out)	(1,230)	(253)		
Change in net assets	(1,243)	184	(3)	6,413
Total net assets--beginning	24,835	2,989	909	(23,943)
Total net assets--ending	\$ 23,592	3,173	906	(17,530)

(Cont)

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004
(In Thousands)**

			(Cont)
	Fleet Services	Mail, Print & Records	Facilities Management
Operating revenues			
Charges for services	\$ 23,289		72,229
Miscellaneous			1,035
Total operating revenue	23,289		73,264
Operating expenses			
Salaries	4,644		21,855
Repairs and maintenance	3,903		16,793
Equipment rental	1		807
Contracted services	1,755		11,376
Depreciation	7,937		56
Utilities	294		19,606
Cost of material	1,642		
Claims and judgments			
Fuel	5,188		164
Other operating expenses	401		6,712
Total operating expenses	25,765		77,369
Operating income (loss)	(2,476)		(4,105)
Nonoperating revenues (expenses)			
Investment income	63		
Interest expense	(21)		
Grant revenue			43
Loss on disposal of equipment	(393)		(5)
Other non-operating expense			(63)
Total nonoperating revenues (expenses)	(351)		(25)
Income (loss) before contributions and transfers	(2,827)		(4,130)
Capital contributions			
Transfers in	1,179		3,476
Transfers (out)	(214)	(2,649)	(1,031)
Change in net assets	(1,862)	(2,649)	(1,685)
Total net assets--beginning	57,234	2,649	197
Total net assets--ending	\$ 55,372		(1,488)

(Cont)

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004
(In Thousands)**

(Cont)

	Information Technology	Other Miscellaneous	Total
Operating revenues			
Charges for services	\$ 106,204	3,663	267,932
Miscellaneous		110	1,367
Total operating revenue	106,204	3,773	269,299
Operating expenses			
Salaries			31,788
Repairs and maintenance		19	23,218
Equipment rental			1,024
Contracted services	112,013		127,262
Depreciation		31	9,869
Utilities			20,058
Cost of material		1,290	18,794
Claims and judgments			29,096
Fuel		1	5,980
Other operating expenses		875	8,400
Total operating expenses	112,013	2,216	275,489
Operating income (loss)	(5,809)	1,557	(6,190)
Nonoperating revenues (expenses)			
Investment income			157
Interest expense			(24)
Grant revenue			43
Loss on disposal of equipment			(528)
Other non-operating expense			(134)
Total nonoperating revenues (expenses)			(486)
Income (loss) before contributions and transfers	(5,809)	1,557	(6,676)
Capital contributions	2,286		2,470
Transfers in	1,569		8,341
Transfers (out)		(1,278)	(6,655)
Change in net assets	(1,954)	279	(2,520)
Total net assets--beginning	49,118	1,794	115,782
Total net assets--ending	\$ 47,164	2,073	113,262

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004
(In Thousands)

	Road and Communication Equipment	Purchasing	Special District Loans	Risk Financing
Cash flows from operating activities:				
Cash received from customers (including other funds)	\$ 4,898	23,586	59	33,913
Other receipts				
Cash payments to suppliers	211	(19,030)		(24,899)
Cash payments to employees		(5,031)		
Internal activity-payments to other funds	(3,307)	(1,100)		(9,267)
Net cash provided by (used for) operating activities	1,802	(1,575)	59	(253)
Cash flows from non-capital financing activities:				
Grants				
Loan proceeds				
Transfers from other funds	167	1,485		
Transfers to other funds	(1,230)	(253)		
Advances from other funds			171	
Advances to other funds				
Net cash provided by (used for) non-capital financing activities	(1,063)	1,232	171	
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(1,875)			
Capital contributions				
Proceeds from sale of equipment	104			
Principal paid on long-term debt				
Interest paid on long-term debt			(3)	
Net cash used for capital and related financing activities	(1,771)		(3)	
Cash flows from investing activities:				
Interest	89	23		
Net increase (decrease) in cash & cash equivalents	(943)	(320)	227	(253)
Cash and cash equivalents - beginning of year	13,645	3,081	214	81,505
Cash and cash equivalents - end of year	12,702	2,761	441	81,252
Reconciliation of operating income (loss):				
Operating income (loss)	(181)	(1,589)		6,413
Adjustments to reconcile:				
Increase (decrease) in compensated absences		37		
Increase (decrease) in accrued payroll		226		
Increase (decrease) in due to other funds	(145)	52		(2,343)
Increase (decrease) in accounts payable	219	(1,461)		369
Increase (decrease) in claims and judgments				(2,705)
Decrease (increase) in accounts receivable	36	7		(285)
Decrease (increase) in inventory				
Increase (decrease) in deferred credits				
Decrease (increase) in due from other funds	131	1,050	59	(1,702)
Depreciation	1,742	103		
Net cash provided by (used for) operating activities	1,802	(1,575)	59	(253)
Non-cash investing and capital financing activities:				
Accrued interest	50	13		
Capital acquisition included in accounts payable	205			
Total non-cash investing and capital financing activities	\$ 255	13		

(Cont)

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004
(In Thousands)

			(Cont)
	Fleet Services	Mail, Print & Records	Facilities Management
Cash flows from operating activities:			
Cash received from customers (including other funds)	\$ 23,194	637	68,665
Other receipts			(244)
Cash payments to suppliers	(8,647)	(37)	(45,175)
Cash payments to employees	(4,628)	(248)	(21,509)
Internal activity-payments to other funds	(3,499)	(52)	(9,345)
Net cash provided by (used for) operating activities	6,420	300	(7,608)
Cash flows from non-capital financing activities:			
Grants			43
Loan proceeds			1,977
Transfers from other funds	1,179		3,316
Transfers to other funds	(214)	(2,022)	(1,031)
Advances from other funds			
Advances to other funds			
Net cash provided by (used for) non-capital financing activities	965	(2,022)	4,305
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(6,749)		(99)
Capital contributions			
Proceeds from sale of equipment	511		
Principal paid on long-term debt	(822)	(38)	
Interest paid on long-term debt	(21)		
Net cash used for capital and related financing activities	(7,081)	(38)	(99)
Cash flows from investing activities:			
Interest	77	16	
Net increase (decrease) in cash & cash equivalents	381	(1,744)	(3,402)
Cash and cash equivalents - beginning of year	16,620	1,744	7,700
Cash and cash equivalents - end of year	17,001		4,298
Reconciliation of operating income (loss):			
Operating income (loss)	(2,476)		(4,105)
Adjustments to reconcile:			
Increase (decrease) in compensated absences	(45)	(154)	83
Increase (decrease) in accrued payroll	62	(94)	301
Increase (decrease) in due to other funds	149	(52)	413
Increase (decrease) in accounts payable	888	(279)	478
Increase (decrease) in claims and judgments			(244)
Decrease (increase) in accounts receivable	(172)	87	(227)
Decrease (increase) in inventory		242	9
Increase (decrease) in deferred credits			(4,372)
Decrease (increase) in due from other funds	77	550	
Depreciation	7,937		56
Net cash provided by (used for) operating activities	6,420	300	(7,608)
Non-cash investing and capital financing activities:			
Accrued interest	14	16	
Capital acquisition included in accounts payable	1,141		
Total non-cash investing and capital financing activities	\$ 1,155	16	

(Cont)

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

	Information Technology	Other Miscellaneous	Total
Cash flows from operating activities:			
Cash received from customers (including other funds)	\$ 110,440	3,769	269,161
Other receipts			(244)
Cash payments to suppliers	(114,349)	(2,056)	(213,982)
Cash payments to employees			(31,416)
Internal activity-payments to other funds	(437)		(27,007)
Net cash provided by (used for) operating activities	(4,346)	1,713	(3,488)
Cash flows from non-capital financing activities:			
Grants			43
Loan proceeds			1,977
Transfers from other funds	1,569		7,716
Transfers to other funds		(1,278)	(6,028)
Advances from other funds			171
Advances to other funds			
Net cash provided by (used for) non-capital financing activities	1,569	(1,278)	3,879
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(2,286)		(11,009)
Capital contributions	2,286		2,286
Proceeds from sale of equipment			615
Principal paid on long-term debt			(860)
Interest paid on long-term debt			(24)
Net cash used for capital and related financing activities			(8,992)
Cash flows from investing activities:			
Interest			205
Net increase (decrease) in cash & cash equivalents	(2,777)	435	(8,396)
Cash and cash equivalents - beginning of year	45,439	1,966	171,914
Cash and cash equivalents - end of year	42,662	2,401	163,518
Reconciliation of operating income (loss):			
Operating income (loss)	(5,809)	1,557	(6,190)
Adjustments to reconcile:			
Increase (decrease) in compensated absences			(79)
Increase (decrease) in accrued payroll			495
Increase (decrease) in due to other funds	(406)	55	(2,277)
Increase (decrease) in accounts payable	(2,367)	65	(2,088)
Increase (decrease) in claims and judgments			(2,949)
Decrease (increase) in accounts receivable	492	4	(58)
Decrease (increase) in inventory		9	260
Increase (decrease) in deferred credits			(4,372)
Decrease (increase) in due from other funds	3,744	(8)	3,901
Depreciation		31	9,869
Net cash provided by (used for) operating activities	(4,346)	1,713	(3,488)
Non-cash investing and capital financing activities:			
Accrued interest			93
Capital acquisition included in accounts payable			1,346
Total non-cash investing and capital financing activities	\$		1,439

PROPERTY TAX COLLECTION FUNDS

These funds are used for recording the collection and distribution of property taxes.

OTHER AGENCY FUNDS

These funds maintain assets held in an agent capacity for other governments, organizations and individuals. These assets do not support the county's programs or services. Any portion of agency fund assets held at fiscal year end for other funds are reported in those funds rather than in the agency funds.

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2004
(In Thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
PROPERTY TAX COLLECTION FUNDS				
ASSETS				
Equity in pooled cash and investments	\$ 49,701	11,379,227	11,360,963	67,965
Cash with fiscal agents		51,990	51,899	91
Collections in transit	12,014	10,635	12,143	10,506
Taxes receivable	133,259	3,755,402	3,687,617	201,044
Accounts receivable		545,170	545,170	
Due from other funds	720	143,875	143,678	917
Total assets	195,694	15,886,299	15,801,470	280,523
LIABILITIES				
Accounts payable		580,293	580,293	
Due to other funds	5,254	145,318	134,639	15,933
Due to other governments	190,440	13,914,048	13,839,898	264,590
Total liabilities	\$ 195,694	14,639,659	14,554,830	280,523

	Beginning Balance	Additions	Deductions	Ending Balance
OTHER AGENCY FUNDS				
ASSETS				
Equity in pooled cash and investments	\$ 307,803	16,622,333	16,570,362	359,774
Cash with fiscal agents	9,982	63,119	59,843	13,258
Collections in transit	3,553	4,303	3,548	4,308
Imprest cash	5		1	4
Investments	1	37,181,985	37,181,986	
Taxes receivable	61,736	46,101	46,736	61,101
Accounts receivable	15,322	59,359	59,665	15,016
Due from other funds	324	6,190	2,089	4,425
Total assets	398,726	53,983,390	53,924,230	457,886
LIABILITIES				
Accounts payable	651	1,234,856	1,235,507	
Due to other funds	59,571	11,732,404	11,746,078	45,897
Due to other governments	276,768	2,895,405	2,821,285	350,888
Amount due for commercial paper notes	61,736	46,101	46,736	61,101
Total liabilities	\$ 398,726	15,908,766	15,849,606	457,886

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Year Ended June 30, 2004
(In Thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
TOTAL AGENCY FUNDS				
ASSETS				
Equity in pooled cash and investments	\$ 357,504	28,001,560	27,931,325	427,739
Cash with fiscal agents	9,982	115,109	111,742	13,349
Collections in transit	15,567	14,938	15,691	14,814
Imprest cash	5		1	4
Investments	1	37,181,985	37,181,986	
Taxes receivable	194,995	3,801,503	3,734,353	262,145
Accounts receivable	15,322	604,529	604,835	15,016
Due from other funds	1,044	150,065	145,767	5,342
Total assets	<u>594,420</u>	<u>69,869,689</u>	<u>69,725,700</u>	<u>738,409</u>
LIABILITIES				
Accounts payable	651	1,815,149	1,815,800	
Due to other funds	64,825	11,877,722	11,880,717	61,830
Due to other governments	467,208	16,809,453	16,661,183	615,478
Amount due for commercial paper notes	61,736	46,101	46,736	61,101
Total liabilities	<u>\$ 594,420</u>	<u>30,548,425</u>	<u>30,404,436</u>	<u>738,409</u>



STATISTICAL SECTION

**COMPARISON OF EXPENDITURES
COUNTY GOVERNMENTAL FUNDS
Fiscal Years 1994-95 Through 2003-2004
(In Thousands)**

TABLE 1

		1994-95	1995-96	1996-97	1997-98	1998-99
General government	\$	166,381	172,916	186,861	184,465	185,426
Public protection		450,419	481,691	509,142	544,585	575,825
Public ways & facilities		62,786	69,617	64,180	66,509	80,127
Health & sanitation		256,011	265,396	268,400	294,867	319,505
Public assistance		1,001,420	992,263	915,302	816,620	703,132
Education		8,879	8,973	9,375	10,097	11,325
Recreation & cultural		6,749	7,109	7,210	9,309	11,203
Capital outlay		60,914	115,170	74,368	91,119	47,098
Debt service		72,894	77,705	91,914	98,150	103,448
Total	\$	2,086,453	2,190,840	2,126,752	2,115,721	\$ 2,037,089

		1999-00	2000-01	2001-02	2002-03	2003-04
General government	\$	150,879	136,714	156,517	209,874	216,183
Public protection		667,565	728,212	809,185	1,145,171	1,216,276
Public ways & facilities		72,721	83,932	95,936	123,202	115,426
Health & sanitation		370,379	454,628	548,627	600,525	562,657
Public assistance		737,284	747,430	827,229	1,037,467	1,053,545
Education		14,263	18,621	24,005	31,013	31,308
Recreation & cultural		12,393	13,102	16,514	20,805	24,702
Capital outlay		55,239	57,723	72,341	83,748	54,958
Debt service		110,221	140,000	169,311	162,593	166,437
Total	\$	2,190,944	2,380,362	2,719,665	3,414,398	3,441,492

Governmental funds include the General Fund, Tobacco Securitization Special Revenue Fund, Tobacco Securitization Joint Special Revenue Fund, and Non Major Governmental Funds including Special Revenue, Debt Service and Capital Projects funds.

COMPARISON OF REVENUES BY SOURCE
COUNTY GOVERNMENTAL FUNDS
Fiscal Years 1994-95 through 2003-2004
(In Thousands)

TABLE 2

		1994-95	1995-96	1996-97	1997-98	1998-99
Taxes	\$	272,831	299,383	297,314	306,203	338,487
Licenses, permits and franchises		27,011	26,587	28,118	28,312	31,095
Fines, forfeitures and penalties		18,156	23,787	22,972	29,396	27,015
Use of money and property		26,069	25,319	31,089	48,968	40,939
Aid from other governmental agencies		1,532,529	1,587,410	1,536,529	1,481,185	1,418,073
Charges for current services		156,823	171,079	173,489	196,435	211,290
Other revenue		17,234	17,725	27,327	18,822	31,130
Total	\$	2,050,653	2,151,290	2,116,838	2,109,321	2,098,029

		1999-00	2000-01	2001-02	2002-03	2003-04
Taxes	\$	344,393	432,468	409,969	446,835	497,178
Licenses, permits and franchises		31,796	34,796	37,808	39,335	42,252
Fines, forfeitures and penalties		36,235	40,139	39,691	41,236	46,495
Use of money and property		48,519	74,244	45,567	40,733	25,867
Aid from other governmental agencies		1,575,013	1,739,153	1,771,123	1,930,261	1,972,195
Charges for current services		209,400	223,296	251,018	266,574	277,637
Other revenue		28,782	37,214	70,203	70,065	65,913
Total	\$	2,274,138	2,581,310	2,625,379	2,835,039	2,927,537

Governmental funds include the General Fund, Tobacco Securitization Special Revenue Fund, Tobacco Securitization Joint Special Revenue Fund, and Non Major Governmental Funds including Special Revenue, Debt Service and Capital Projects funds.

COMPARISON OF COUNTY ASSESSED VALUE
TAXES LEVIED AND TAX COLLECTIONS COUNTY GENERAL AND LIBRARY FUNDS
Fiscal Years 1994-95 through 2003-2004
(In Thousands)

TABLE 3

Assessed valuations and tax rates	1994-95	1995-96	1996-97	1997-98	1998-99
Secured	\$ 140,737,545	142,068,531	142,356,634	145,607,295	155,847,593
Tax rate (county wide)	1.000	1.000	1.000	1.000	1.000
Unsecured	6,448,886	6,695,765	6,755,173	7,295,084	7,880,996
Tax rate (county wide)	1.000	1.000	1.000	1.000	1.000
Tax levied (current and prior)	218,190	221,960	223,706	231,220	247,288
Current tax collections	216,385	220,205	221,724	228,984	244,803
Delinquent tax collections	136	209	165	179	223
Total tax collections	216,521	220,414	221,889	229,163	245,026
Ratio of total collections to levy	99.2%	99.3%	99.2%	99.1%	99.1%
Outstanding delinquent taxes	\$ 1,669	1,546	1,817	2,057	2,262

Assessed valuations and tax rates	1999-00	2000-01	2001-02	2002-03	2003-04
Secured	\$ 171,710,387	186,548,635	204,408,552	222,255,305	244,109,399
Tax rate (county wide)	1.000	1.000	1.000	1.000	1.000
Unsecured	8,838,343	9,168,845	10,075,117	10,607,072	10,890,253
Tax rate (county wide)	1.000	1.000	1.000	1.000	1.000
Tax levied (current and prior)	270,611	292,042	318,380	343,190	373,055
Current tax collections	267,987	289,406	315,736	340,071	368,177
Delinquent tax collections	217	164	148	283	2,230
Total tax collections	268,204	289,570	315,884	340,354	370,407
Ratio of total collections to levy	99.1%	99.2%	99.2%	99.2%	99.3%
Outstanding delinquent taxes	\$ 2,407	2,472	2,496	2,836	2,648

**COMPARISON OF ASSESSED VALUATIONS
SECURED AND UNSECURED
Fiscal Years 1994-95 through 2003-2004
(In Thousands)**

TABLE 4

	1994-95	1995-96	1996-97	1997-98	1998-99
Secured property:					
Land	\$ 58,065,558	58,442,660	58,743,000	59,965,573	63,633,576
Improvements	84,039,711	84,997,932	85,004,255	85,520,503	92,369,459
Personal property	2,102,662	2,241,217	2,253,372	4,125,615	4,099,352
Gross secured valuations	144,207,931	145,681,809	146,000,627	149,611,691	160,102,387
Exemptions:	3,470,386	3,613,279	3,643,995	4,004,395	4,254,794
Net secured valuations	140,737,545	142,068,530	142,356,632	145,607,296	155,847,593
Unsecured property:					
Land	74	26,663			
Improvements	1,588,569	1,587,308	1,759,688	1,706,300	1,803,442
Personal property	5,073,088	5,295,127	5,150,899	6,096,946	6,478,142
Gross unsecured valuations	6,661,730	6,909,098	6,910,587	7,803,246	8,281,584
Exemptions:	212,845	213,333	155,414	508,163	400,587
Net unsecured valuations	6,448,886	6,695,765	6,755,173	7,295,083	7,880,997
Net valuations	147,186,431	148,764,295	149,111,805	152,902,379	163,728,590

	1999-00	2000-01	2001-02	2002-03	2003-04
Secured property:					
Land	\$ 70,120,054	76,745,341	84,852,228	93,104,455	103,818,122
Improvements	103,036,379	110,551,695	120,502,617	131,008,612	143,245,454
Personal property	2,957,459	3,897,721	3,926,419	3,263,353	3,007,787
Gross secured valuations	176,113,892	191,194,757	209,281,264	227,376,420	250,071,363
Exemptions:	4,403,504	4,646,122	4,872,712	5,121,115	5,961,964
Net secured valuations	171,710,388	186,548,635	204,408,552	222,255,305	244,109,399
Unsecured property:					
Improvements	2,011,700	2,144,396	2,127,362	2,450,811	2,728,490
Personal property	7,263,938	7,701,247	8,749,368	8,509,857	8,941,840
Gross unsecured valuations	9,275,638	9,845,643	10,876,730	10,960,668	11,670,330
Exemptions:	437,295	676,798	801,613	353,596	780,078
Net unsecured valuations	8,838,343	9,168,845	10,075,117	10,607,072	10,890,252
Net valuations	180,548,731	195,717,480	214,483,669	232,862,377	254,999,651

**RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO
ASSESSED VALUE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
Fiscal Years 1994-95 through 2003-2004
(In Thousands)**

TABLE 5

FISCAL YEAR	POPULATION (1)	ASSESSED VALUE (2)	GROSS BONDED DEBT (3)	LESS DEBT SERVICE FUND (4)	NET BONDED DEBT	RATIO OF NET BONDED DEBT TO ASSESSED VALUE	NET BONDED DEBT PER CAPITA
1994-95	2,659	\$ 147,186,431	762,993	47,625	715,368	0.49%	269
1995-96	2,690	148,764,295	799,533	51,652	747,881	0.50	278
1996-97	2,724	149,111,807	834,773	30,275	804,498	0.54	295
1997-98	2,795	152,902,378	819,813	28,394	791,419	0.52	283
1998-99	2,853	163,728,589	847,038	28,300	818,738	0.50	287
1999-00	2,911	180,548,730	863,285	31,377	831,908	0.46	286
2000-01	2,884	195,717,480	783,795	37,145	746,650	0.38	259
2001-02	2,918	214,483,669	716,690	26,382	690,308	0.32	237
2002-03	2,961	232,862,377	1,220,080	28,326	1,191,754	0.51	402
2003-04	3,017	\$ 254,999,651	1,613,243	36,764	1,576,479	0.62	523

(1) From Table 10

(2) From Table 8

(3) Includes Lease Revenue Bonds and Certificates of Participation of various Joint Power Authorities and the San Diego County Capital Asset Leasing Corporation and taxable Pension Obligation Bonds.

(4) Amount available for repayment of bonded debt (Redevelopment Agency excluded)

**COMPARISON OF SECURED PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS
(PER \$100 OF ASSESSED VALUE)
Fiscal Years 1994-95 through 2003-2004**

TABLE 6

FISCAL YEAR	GOVERNMENTAL ENTITY				TOTAL
	COUNTY-WIDE*	SCHOOLS	CITIES	SPECIAL DISTRICTS	
1995	1.000	0.044	0.005	0.015	1.064
1996	1.000	0.044	0.005	0.016	1.065
1997	1.000	0.044	0.004	0.015	1.063
1998	1.000	0.045	0.004	0.013	1.062
1999	1.000	0.044	0.004	0.012	1.060
2000	1.000	0.046	0.004	0.011	1.061
2001	1.000	0.047	0.004	0.011	1.062
2002	1.000	0.048	0.004	0.009	1.061
2003	1.000	0.054	0.004	0.008	1.066
2004	1.000	0.062	0.003	0.007	1.072

* The \$1.00 per \$100 of Assessed Value (Proposition 13) tax rate beginning in fiscal year 1978-1979 is distributed according to State Law on a percentage basis to each of the eligible taxing agencies in the County.

**COMPARISON OF RATIO OF ANNUAL DEBT SERVICE FOR
GENERAL BONDED DEBT TO
TOTAL GENERAL GOVERNMENTAL EXPENDITURES
Fiscal Years 1994-95 through 2003-2004
(In Thousands)**

TABLE 7

	PRINCIPAL (1)	INTEREST (1)	TOTAL DEBT SERVICE	TOTAL GENERAL GOVERNMENTAL EXPENDITURES (2)	RATIO OF DEBT SERVICE TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
1994-1995	\$ 13,605	41,023	54,628	2,086,453	2.62%
1995-1996	15,653	44,907	60,560	2,190,840	2.76
1996-1997	56,589	19,722	76,311	2,126,752	3.59
1997-1998	37,365	46,528	83,893	2,115,721	3.97
1998-1999	45,844	47,118	92,962	2,037,089	4.56
1999-2000	53,847	46,061	99,908	2,190,944	4.56
2000-2001	77,432	49,642	127,074	2,380,362	5.34
2001-2002	101,395	62,084	163,479	2,719,665	6.01
2002-2003	88,590	60,767	149,357	3,414,398	4.37
2003-2004	69,610	86,622	156,232	3,441,492	4.54

- (1) Includes principal and interest payments on debt that is supported by taxes, and therefore excludes debt reported in proprietary funds, as well as capital and retrofit loans, Teeter notes and Tax and Revenue Anticipation Notes.
- (2) Includes General, Special Revenue, Debt Service and Capital Projects funds. The debt service expenditures for Lease Revenue Bonds and Certificates of Participation of various Joint Powers Authorities and the San Diego County Capital Asset Leasing Corporation are incorporated into the County's Comprehensive Annual Financial Report in accordance with criteria adopted by the Governmental Accounting Standards Board. These debt instruments function as general obligation debt of the County. The general revenues of the County, including taxes, are the source of payment for the debt service expenditures made by these agencies.

COMPARISON OF COMPUTATION OF LEGAL DEBT MARGIN
Fiscal Years 1994-95 through 2003-2004
(In Thousands)

TABLE 8

	POPULATION PER OFFICIAL U.S.CENSUS (1)	TOTAL ASSESSED VALUATION	LEGAL DEBT LIMIT (2)	LEGAL DEBT MARGIN (3)
1994-1995	2,659	147,186,431	1,839,830	1,839,830
1995-1996	2,690	148,764,295	1,859,554	1,859,554
1996-1997	2,724	149,111,807	1,863,898	1,863,898
1997-1998	2,795	152,902,378	1,911,280	1,911,280
1998-1999	2,853	163,728,589	2,046,607	2,046,607
1999-2000	2,911	180,548,730	2,256,859	2,256,859
2000-2001	2,884	195,717,480	2,446,469	2,446,469
2001-2002	2,918	214,483,669	2,681,046	2,681,046
2002-2003	2,961	232,862,377	2,910,780	2,910,780
2003-2004	3,017	254,999,651	3,187,496	3,187,496

(1) Estimated

(2) The Legal debt Limit is 1.25% of Assessed Valuation

(3) Legal Debt Margin is computed by subtracting the County legal general obligation bonded debt from the Legal Debt Limit. Beginning in 1980-81 and subsequent fiscal years the County, as a legally defined entity, had no tax supported general obligation bonded debt outstanding.

COMPARISON OF CONSTRUCTION, BANK DEPOSITS AND PROPERTY VALUES
Fiscal Years 1994-95 through 2003-2004
Calendar Years 1994 through 2003
(In Thousands)

TABLE 9

	1994	1995	1996	1997	1998
(1) CONSTRUCTION					
Residential units	6,935	6,608	6,868	11,402	12,173
Non-residential units	127	254	293	452	641
Residential/ non-residential valuation	\$ 1,262,621	1,383,828	1,637,479	2,502,736	2,970,179
Alterations/additions valuation	405,844	431,422	459,471	488,264	555,152
Total valuation	1,668,465	1,815,250	2,096,950	2,991,000	3,525,331
Fiscal year	1994-95	1995-96	1996-97	1997-98	1998-99
(2)					
Bank deposits	\$ 15,332,999	15,053,416	15,105,204	17,365,228	18,838,052
(3) PROPERTY VALUE					
Commerical	\$ 27,034,074	26,526,398	26,426,880	27,214,630	30,381,796
Residential	101,807,538	103,576,070	104,163,069	106,742,185	113,347,767
Non-taxable	3,470,386	3,613,279	3,643,995	4,004,395	4,254,794
	1999	2000	2001	2002	2003
(1) CONSTRUCTION					
Residential units	16,427	15,927	15,638	15,738	18,314
Non-residential units	619	573	475	486	446
Residential/ non-residential valuation	\$ 3,605,497	3,685,819	3,665,609	3,950,241	4,120,957
Alterations/additions valuation	717,092	713,887	696,177	693,733	732,247
Total valuation	4,322,589	4,399,706	4,361,786	4,643,974	4,853,204
Fiscal year	1999-00	2000-01	2001-02	2002-03	2003-04
(2)					
Bank deposits	\$ 20,103,119	22,040,351	24,132,798	32,143,450	(4)
(3) PROPERTY VALUE					
(5) Commerical	\$ 34,406,623	38,108,162	41,522,846	44,763,100	47,471,036
(5) Residential	124,792,674	136,721,138	150,918,286	165,975,371	185,242,078
(5) Non-taxable	4,403,504	4,646,121	4,872,712	5,121,115	5,961,964

Sources:

- (1) Greater San Diego Chamber of Commerce
- (2) Federal Reserve Bank - FDIC Banks and Branches Data Book
- (3) San Diego County Property Tax Services and Assessor
- (4) Not yet available
- (5) Excludes farm land, institutional, recreational, miscellaneous fixtures and personal property

COMPARISON OF DEMOGRAPHIC STATISTICS
Calendar Years 1995 through 2004

TABLE 10

YEAR	POPULATION (1)	CIVILIAN LABOR FORCE	UNEMPLOYMENT PERCENTAGE RATE
1995	2,658,584	1,217,100	6.8
1996	2,690,255	1,232,400	5.5
1997	2,724,457	1,249,700	4.5
1998	2,794,800	1,281,600	4.2
1999	2,853,258	1,347,800	3.3
2000	2,911,468	1,401,900	3.7
2001	2,883,600	1,362,900	3.0
2002	2,918,254	1,475,300	4.2
2003	2,961,600	1,494,600	4.5
2004	3,017,200	1,521,100 (2)	4.2 (2)

DATA SOURCES:

- (1) State Department of Finance (As of January 1)
- (2) State Employment Development Department for 2004

**COMPARISON OF REVENUE BOND COVERAGE
WATER AND SEWER BONDS
Fiscal Years 1994-95 through 2003-2004
(In Thousands)**

TABLE 11

FISCAL YEAR	GROSS REVENUE	DIRECT OPERATING EXPENSES(1)	NET REVENUE AVAILABLE FOR DEBT SERVICE	DEBT SERVICE REQUIREMENTS			
				PRINCIPAL(2)	INTEREST	TOTAL	COVERAGE
1994-95	20,885	17,816	3,069	15	10	25	122.76
1995-96	19,031	17,657	1,374	15	9	24	57.25
1996-97	19,056	11,050	8,006	15	8	23	348.09
1997-98	22,177	16,004	6,173	20	6	26	237.42
1998-99	20,917	15,494	5,423	20	5	25	216.92
1999-00	21,672	12,527	9,145	20	4	24	381.04
2000-01	16,103	11,667	4,436	20	4	24	184.83
2001-02	17,949	13,995	3,954	25	2	27	146.44

(1) Total Operating Expenses exclusive of depreciation

(2) At the end of Fiscal Year 2001-02 the County no longer had water and sewer bond debt.

ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT

TABLE 12

2003-04 Assessed Valuation:	\$ 254,999,650,595	(Includes unitary utility valuation)
Redevelopment Incremental Valuation:	<u>18,390,021,187</u>	
Adjusted Assessed Valuation:	<u>\$ 236,609,629,408</u>	

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 4/1/04
Metropolitan Water District of Southern California	18.213	\$ 81,498,622
San Diego Community College District	100	93,685,000
Other Community College Districts	100	93,455,000
Poway Unified School District School Facilities Improvement District No.2002-1	100	75,000,000
San Diego Unified School District	100	1,114,978,826
Vista Unified School District	100	112,359,882
Other Unified School Districts	100	114,584,892
Sweetwater Union High School District	100	85,225,000
Other Union High School Districts	100	66,550,117
Chula Vista City School District	100	75,510,000
Other School Districts	100	257,786,708
Otay Municipal Water District Improvement Districts	100	10,710,000
Cities	100	22,970,000
San Diego Open Space Park Facilities District	100	31,385,000
Special Districts	100	1,190,000
Community Facilities Districts	100	1,052,753,754
1915 Act Bonds (Estimated)	100	<u>200,632,520</u>
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		3,490,275,321
Less: San Diego Open Space Park Facilities District (100% self-supporting)		31,385,000
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		<u>3,458,890,321</u>

DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:

San Diego County General Fund Obligations	100	435,144,990	(1)
San Diego County Pension Obligations	100	814,765,000	
San Diego County Superintendent of Schools Obligations	100	2,077,500	
Community College District Certificates of Participation	100	28,320,000	
Unified School District Certificates of Participation	100	82,860,454	
High School District Certificates of Participation	100	47,271,500	
School District Certificates of Participation	100	149,180,000	
Municipal Water District Certificates of Participation	100	27,725,000	
City of Chula Vista General Fund and Pension Obligations	100	105,675,445	
City of Escondido General Fund Obligations	100	84,555,010	
City of San Diego General Fund Obligations	100	533,840,000	
Other City General Fund Obligations	100	261,020,385	
San Miguel Consolidated Fire Protection District Certificates of Participation	100	10,005,000	
Fallbrook Sanitary District Certificates of Participation	100	<u>9,520,000</u>	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		2,591,960,284	

(Cont)

ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT

TABLE 12 (Cont)

Less: Otay municipal water district certificates of participation (100% self-supporting)	25,380,000
Grossmont Union High School District Certificates of Participation (100% self-supporting from tax increment revenues)	7,389,000
City of Oceanside Certificates of Participation	1,895,000
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT	2,557,296,284
GROSS COMBINED TOTAL DEBT	6,082,236,605 (2)
NET COMBINED TOTAL DEBT	\$ 6,016,186,605

(1) Excludes issues to be sold.

(2) Excludes tax & revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2003-04 assessed valuation:

Total Gross Overlapping Tax and Assessment Debt	1.37 %
Total Net Overlapping Tax and Assessment Debt	1.36 %

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$1,249,909,990)	0.53 %
Gross Combined Total Debt	2.57 %
Net Combined Total Debt	2.54 %

STATE SCHOOL BUILDING AID REPAYABLE AS OF JUNE 30, 2003 \$ 1,619,839

Source: California Municipal Statistics, Inc. (As of April 1, 2004)

PRINCIPAL TAXPAYERS
June 30, 2004
(In Thousands)

TABLE 13

TAXPAYERS	TYPE OF BUSINESS	ASSESSED VALUATION	PERCENTAGE OF TOTAL ASSESSED VALUATION
San Diego Gas & Electric Company	Gas & Electric Utility	\$ 2,672,125	1.05
Southern California Edison Co.	Electric Utility	1,565,351	0.61
SBC California	Telephone Company	1,065,200	0.42
Kilroy Realty L P	Real Estate	609,558	0.24
Qualcomm Inc.	Telecommunications	486,805	0.19
Fashion Valley Mall LLC	Real Estate	426,783	0.17
Cabrillo Power I L L C	Electric Utility	373,200	0.15
L-O Coronado Holdings LL	Real Estate	302,067	0.12
Sea World Inc.	Marine Oriented Theme Park	295,550	0.12
J M S Acquisition Sub Inc	Real Estate	264,738	0.10
		\$ 8,061,377	3.17

MISCELLANEOUS STATISTICAL DATA

June 30, 2004

TABLE 14

FORM OF GOVERNMENT:	Chartered County, governed by five-member Board of Supervisors																		
COUNTY SEAT:	San Diego, California																		
COUNTY CHARTER ADOPTED:	July 1, 1933																		
FISCAL YEAR BEGINS:	July 1																		
AREA OF COUNTY:	Approximately 4,200 square miles																		
GEOGRAPHICAL LOCATION:	The Southwestern most county in California and the continental United States. Bounded by Mexico on the South, Riverside and Orange counties on the North, Imperial County on the East and the Pacific Ocean on the West. Extends North to South approximately 60 miles and East to West 70 miles.																		
ALTITUDE:	Sea Level to 6,500 feet																		
INCORPORATED CITIES:	<table> <tr> <td>Carlsbad</td><td>Lemon Grove</td></tr> <tr> <td>Chula Vista</td><td>National City</td></tr> <tr> <td>Coronado</td><td>Oceanside</td></tr> <tr> <td>Del Mar</td><td>Poway</td></tr> <tr> <td>El Cajon</td><td>San Diego</td></tr> <tr> <td>Encinitas</td><td>San Marcos</td></tr> <tr> <td>Escondido</td><td>Santee</td></tr> <tr> <td>Imperial Beach</td><td>Solana Beach</td></tr> <tr> <td>La Mesa</td><td>Vista</td></tr> </table>	Carlsbad	Lemon Grove	Chula Vista	National City	Coronado	Oceanside	Del Mar	Poway	El Cajon	San Diego	Encinitas	San Marcos	Escondido	Santee	Imperial Beach	Solana Beach	La Mesa	Vista
Carlsbad	Lemon Grove																		
Chula Vista	National City																		
Coronado	Oceanside																		
Del Mar	Poway																		
El Cajon	San Diego																		
Encinitas	San Marcos																		
Escondido	Santee																		
Imperial Beach	Solana Beach																		
La Mesa	Vista																		

SPECIAL DISTRICTS	
Air Pollution Control	1
Cemetery	4
Community Facilities	199
Community Services	12
County Service Areas	17
Education:	
Schools	47
Dept. of Education	1
Fire	16
Flood Control	1
Geological Hazard	1
Hospital	4
Infrastructure	1
Irrigation	6
Library	1
Lighting	6
Maintenance:	
Lighting	1
Sewer	2
Street	1
Permanent Road Divisions	66
Public Utility	1
Recreation and Parks	1
Redevelopment Agencies	18
Resource Conservation	3
Sanitation	9
Sewer	1
Small Craft Harbor	1
Unified Port	1
Vector Control	1
Water:	
California	3
County	5
Miscellaneous	2
Municipal	14
447	

MILES OF COUNTY-MAINTAINED ROADS
(Unincorporated Areas Only):

1,894.74

(Cont)

MISCELLANEOUS STATISTICAL DATA

June 30, 2004

TABLE 14 (Cont)

SEWERS MAINTAINED BY
WASTEWATER MANAGEMENT

Districts Connected to Metropolitan System	4
Water Pollution Control Facilities	7
Sewer Lines, Miles	381
Equivalent Dwelling Units Sewer Connections	52,103

REGISTERED VOTERS

Primary Election:	March 2, 2004
Number Voted:	621,429
Percent Voted:	46.50
Registered Voters:	1,336,353

MAJOR INDUSTRY GROUP OF EMPLOYED
PERSONS FOR SAN DIEGO COUNTY
(In Thousands)

JUNE 30

Agriculture and Fishing	11.4
Mining	0.3
Contract Construction	88.5
Manufacturing:	
Machinery Manufacturing	8.3
Computer & Electronic	25.5
Aircraft & Transportation Equipment	13.1
Other Manufacturing	32.2
Paper, Printing and Publishing	26.7
Transportation and Public Utilities	27.2
Wholesale and Retail Trade	182.9
Finance, Real Estate and Insurance	83.5
Service Industries	559.5
Government	222.0
Subtotal:	1,281.1
Not Elsewhere Classified	176.5
TOTAL EMPLOYED	1,457.6
UNEMPLOYED	63.5
TOTAL CIVILIAN LABOR FORCE	1,521.1

TOTAL COUNTY EMPLOYEES AT JUNE 30

Year	Number of Employees	Percent of Increase over Previous Year	Number of Employees Per Thousands Population
1995	17,470	1.2	6.57
1996	17,626	0.9	6.55
1997	17,623	(0.0)	6.47
1998	17,790	0.9	6.36
1999	16,390	(7.9)	5.74
2000	16,617	1.4	5.71
2001	17,057	2.6	5.91
2002	18,208	6.7	6.24
2003	17,835	(2.0)	6.02
2004	16,949	(5.0)	5.62

